

# Social dialogue during the economic crisis: The impact of industrial relations reforms on collective bargaining in the manufacturing sector: Slovenia

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## **Project**

**Social dialogue during the economic crisis: The impact of industrial relations reforms on collective bargaining in the manufacturing sector (incorporating social dialogue in manufacturing during the sovereign debt crisis)**

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## 1. Introduction

### 1.1 The evolution and conceptualisation of the crisis in Slovenia

In terms of VoC theory (Hall and Soskice, 2001), Slovenia established a *coordinated market economy* in the 1990s. In all other contemporary candidate 'post-communist' countries, the real change was moving more towards a deregulated, *liberal market economy* model (Bohle and Greskovits, 2012; Feldman, 2006; 2013).

The Slovenian peculiarity was based on an untypical combination of factors not seen in other cases. The entire Slovenian transition – up to its formal inclusion in the EU in 2004 – was led by unstable, *centre-left* governments. Being unstable and focused on a smooth approach to the EU and EMU, these governments were in favour of cooperation with the social partners. In addition, the relatively favourable economic conditions enabled such cooperation: the transformational depression of the late 1980s and early 1990s was one of the least intensive within the group of 'post-communist' countries; the country's budget deficit and public debt were insignificant; the only problem to be resolved during the accession process was the relatively high inflation rate (Silva-Jauregui, 2004).

Due to the small budget deficit and low public debt, the sale of state-owned property was not necessary as it was, for instance, in the case of Hungary at that time (Toth et al., 2012). In these quite exceptional circumstances, the Slovenian privatisation launched in the mid-1990s took the form of distributional (certificate) privatisation (Simoneti et al., 2004) which basically temporarily stabilised relationships among large social groups/categories and the corresponding key actors of the country's transition.

At that time, the main intermediary interest organisations were relatively strong. The Chamber of Commerce and Industry was based on obligatory membership; the trade union density rate was at 40 per cent (Toš, 1999; 2009), which was above the average level in the old EU member states and significantly above that seen in contemporary candidate countries, i.e. future new EU member states (see: Visser, 2010: 26).

The presence of these strong actors, especially the obligatory membership in the Chamber of Commerce and Industry, strongly influenced the formation of a *centralised collective bargaining system*. As the Chamber was involved in the collective bargaining procedures, the collective agreements reached a coverage rate of almost 100 per cent in the 1990s in Slovenia.

**In short:** Given the outlined conditions and constellations, social dialogue, a neo-corporatist structure and, generally speaking, an unusual formation of the *social market economy* in 'post-communism' started to mark the Slovenian transition in the 1990s (Feldman, 2013).

- Crisis conception in the country: Political? Economic? Institutional? Long-lasting or temporary? Provoked by external (e.g. credit-rating agencies, supranational institutions) or internal (national actors etc.) factors?

Today, the crisis in Slovenia is an economic, political, institutional and long-lasting one. It was generated by a complex interplay of exogenous and internal, endogenous factors (and actors). Basically, the coordinated market economy system which had temporarily stabilised in Slovenia in the 1990s was faced with two big problems already at the start of its formation.

The first was a contextual one. The Keynesian order which had been established in developed Western capitalist societies after the Second World War encountered a serious crisis already in the 1970s (stagflation) and began, after the turning point in the late 1970s and early 1980s, to be substituted by the new globalising neoliberal order. The contemporary Slovenian neo-corporatist transition has obviously not fitted in with this general trend of change.

The second problem was more endogenous. The tripartite interest integration (i.e. the neo-corporatist consensus) ensured a significant temporal advantage for the Slovenian economy in the 1990s. In essence, Slovenian neo-corporatism functioned as a sort of temporal competitive mechanism – “competitive corporatism”, a system of “competitive solidarity” (Rhodes, 1997; Streeck, 1999). This system enabled Slovenia to approach the EU and the eurozone rapidly, but it simultaneously led to gradual internal self-exhaustion and, accordingly, a potential threat to its competitiveness in the post-EU and post-EMU period (Drenovec, 2013; Stanojević, 2012).

The pattern of ‘competitive corporatism’ was based on a combination of two key elements. The first was the systematic wage-restraint policy at the macro level that was in place for more than one decade (Stanojevic, 2010: 340). The second was the permanent intensification and flexibilisation of work at the micro level, within companies, during the same period (Svetlik and Ilič, 2006). Both components were accepted on a consensual basis and in both cases the related supportive consensus stemmed from political exchanges. In exchange for supporting the wage-restraint policy, the trade unions were included in the processes of forming public policies (Stanojević and Krašovec, 2011); in exchange for accepting the work intensification and greater flexibility, workers and their unions obtained, at least temporarily, guarantees of job security, i.e. full-time employment for the core workforce in the manufacturing industry.

Therefore, this system of ‘competitive corporatism’, which was chiefly focused on consensual accommodation to the standards defined in the Maastricht agreement, strongly stimulated/supported the national economy’s competitiveness in the middle term. As mentioned, after a decade or so, it started to show some signs of internal self-exhaustion.

In the middle of the last decade, the system's self-exhaustion overlapped with the shock caused by preparation for and inclusion in the eurozone, along with the contemporary massive and growing indebtedness of companies and, related to that, the *second wave of privatisation*. The monetarist turn (the fixed exchange rate and then inclusion in the eurozone) led to a rapid further escalation of competitive pressures on the Slovenian economy, especially its export sector. Managers largely responded to this shock by introducing additional work intensification and tightening their control over workplaces (Svetlik and Ilič, 2006). In addition, the new wave of mass indebtedness (and the corresponding privatisation) also implied more work for the same and/or lower payment. Accordingly, in the second half of the last decade Slovenian workers faced completely new sources of pressure: more work for unchanged or reduced payment and, later, when a wave of bankruptcies in the context of the financial crisis occurred, in quite a few cases more work without any kind of payment at all.

The world financial crisis reached this overheated system in 2009. In that year, Slovenia's GDP dropped 8 per cent (OECD, 2011). The repayment of the debt levels that had accumulated in the 'years of prosperity' before the crisis became extremely challenging overnight. Insolvency problems and then a chain of collapses were seen in the construction sector. These included the first bankruptcies connected to the second wave of privatisation. Simultaneously, the steep drop in demand from European markets hit the export sector of the economy.

It was in these circumstances that in 2009 policies and the first anti-crisis measures were adopted the budget deficit and public debt started to grow. Within a few years, Slovenia had exceeded the Maastricht threshold concerning public debt; In February 2014 it exceeded 70 per cent of Slovenia's GDP. Similarly to other comparable cases, this rising debt has led to the growing role of financial markets and credit-rating agencies in the country's economy. The increasing debt has almost automatically increased the pressure of the financial markets.

In more recent times, the most accentuated attempts to resolve the crisis of the Slovenian economy have focused on the huge problems in the banking sector. The role of supranational factors – especially the EC, as will be outlined later in this paper – was extraordinary.

International institutions (for instance the OECD) and both 'left' and 'right' leaning Slovenian governments under the influence of these institutions have agreed that the Slovenian market is rigid and overregulated. Accordingly, they are calling for its deregulation – basically the introduction of external (numerical) flexibility as a way to respond to the crisis.

Yet, contrary to this, some empirical surveys reveal that the Slovenian employment system has in fact been very flexible in the last two decades. Basically, the surveys confirm the high functional and numerical flexibility of employment relations in

Slovenia. The *high level of employment security* (i.e. the relative numerical 'rigidity' of the employment system) and the corresponding cooperation of workers and their representatives within companies enabled this high level of functional flexibility to develop. This was combined with the growing use of short-term employment (in the form of fixed-term contracts) as the main functional substitute for the 'missing' numerical flexibility in Slovenian companies (Stanojević, Rojec, Trbanc, 2006).

The Slovenian industrial relations system began to change before the crisis emerged in the mid-2000s. The direction of the transformation, as announced by previous governments, corresponded to the main European trends of the time.

Coordination at the macro level was maintained in the form of social pacts, i.e. consensually accepted income policies. Accordingly, former general collective agreements (for the private and public sector) were consensually replaced by income policies. These were implemented by the sectoral agreements.

Despite this decentralisation, the new law on collective bargaining adopted in 2006 did not create any significant changes to this system. According to surveys (Visser, 2011), the coverage rate was still extremely high (at about 90 per cent in 2008). In general terms, this 'new' system was a 'softer' version of the old one. Along with the moderate decentralisation, it has preserved a relatively high level of regulatory capacity (Visser, 2011: 41) in the last decade.

Collective bargaining has been conducted fairly systematically at the company level. Trade unions were usually active in negotiating agreements with managers in large and medium-sized companies. In successful companies, such agreements typically improved on the standards laid down in the sectoral agreements.

Before the crisis emerged, the position of the Chamber of Commerce and Industry had changed: its former status of a compulsory organisation was abolished in 2006. A new law, adopted by the contemporary centre-right government, transformed the Chamber into a voluntary interest organisation. The Chamber's new status triggered an immediate decline in membership and forced it to compete for members. In other words, it was required to adopt new, more radically oriented policies closer to the interests of its potential constituencies. Accordingly, the formerly modest employers' interest organisation, which once played an important role in negotiations on social pacts, significantly radicalised its stance.

Already before the crisis emerged, between 2005 and 2008 Slovenian trade unions had been exposed to probably the most dramatic membership decline and restructuring in recent history. This decline is comparable and even more intensive than that seen at the beginning of the 1990s when Slovenia was faced with the transformational depression and a large systemic change. Contrary to that, the more recent decline occurred during

the years of economic prosperity and Slovenia's full integration into the EU and eurozone. From a density rate of 43.7 per cent in 2003 – which stabilised at that level in the second half of the 1990s – the rate plummeted to the level of 26.6 per cent in 2008 (Toš, 1999; 2009). That represents a decline in the density rate of 17 per cent or, in absolute terms, a drop from 420,000 to 280,000 members within just five years. From 2003 to 2008 Slovenian unions lost one-third of their membership. Accordingly, the trade union leadership was forced to turn towards the demands of their members. The key result was the radicalisation of the trade unions' policies.

The radicalisation of these social partners occurred within the context of a significant political change which marked the country's political scene immediately after it joined the EU, i.e. in the years before the crises broke out. In 2004 – the same year Slovenia became a full member of the EU – the political right (centre) won the elections. This was a big change from the continuous domination of centre-left coalitions that had been in place for over a decade and it significantly influenced (or, at least, strongly shook up) Slovenia's developmental trajectory that had then been established.

At the outset of its 2004–2008 mandate, the new government launched a package of radical neoliberal reforms. In the centre of the reforms was a flat-tax rate; the second wave of privatisation was a less visible but an equal, if not even more important, part of that programme. The unions opposed these reforms and became embroiled in a conflict with the government. They articulated the mass mobilisation of workers and the wider public, which culminated in November 2005 in an enormous rally in Slovenia's capital.

Having already been exposed to growing pressure during the accession process, workers strongly supported the unions in their defence of the Social Slovenia/Europe, relying on perceptions of the Social Europe which had underpinned their patience in the 1990s. The unions' opposition clearly hindered some of the intended changes (the flat-tax rate was not introduced). In the aftermath of the conflict, public support for the government nose-dived so dramatically that the government could not recover, leading to the defeat of the centre-right coalition at the 2008 elections.

The results of the transition and the accession process and, finally, of the mass mobilisation in 2005 were extremely disappointing for workers. They recognised that the mobilisation, i.e. the trade unions' political conflict with the government, had been insufficient to fulfil their basic expectations (compare: Meardi, 2012). The unions, together with all major political players, paid a high price for this widespread disillusionment. Rapid de-unionisation was thus unavoidable.

## **1.2. The response to the crisis**

Since the crisis emerged in 2008 three governments in Slovenia have been replaced. The first one tried, within the context of early responses to the crisis, to carry out *structural*

reforms. The second focused on *radical fiscal consolidation*, i.e. austerity measures in the public sector. The priority of the third has been to provide some sort of emergency response to the *crisis in the banking sector*.

The centre-left government formed after the general elections in (late) 2008 faced the crisis immediately at the outset of its mandate and started to respond to its first signs with a series of 'fire-extinguishing' measures. These primarily concentrated on the main export sector producers that had been the most seriously hit by the sudden steep drop in demand in European markets. A typical provision of this early intervention was to offer interim support for companies and redundant workers. The measures aimed at safeguarding existing jobs by decreasing the cost of labour that was broadly used as a partial government subsidy for companies by temporarily reducing working time by 4 to 8 hours weekly. The government provided a subsidy in the amount of €60/€120 per employee for reducing the working time by 4/8 hours. Undertakings were able to benefit from the measure for 6 months. **The initial package of temporary measures** (in effect until the end of 2010) was preventive in nature and, like in other EU member states, aimed at the financial sector (such as loans, government guarantees and equity investments in financial institutions). The second package of measures proposed solutions in five areas: improvement of finance and liquidity of enterprises, increase in the working capital of industrial sectors in jeopardy, improvement of the labour market, life-long learning and social security (social entrepreneurship, a new scheme and co-financing of employees' training, preparation of graduation candidates for employment), development of infrastructure, energy and environment, and maximising the use of cohesion funds and increased efficiency.

In the autumn of 2009 a series of strikes erupted in certain major Slovenian companies. The workers' discontent was probably a decisive factor that influenced the then government's decision to significantly raise the minimum wage – by 23 per cent (OECD, 2011:41). Simultaneously, the government started to prepare a programme of structural reforms. With its *Exit Strategy* presented in early 2010 (Slovenska izhodna strategija 2010-2013, 2010), it basically tried to respond to the demands for anti-crisis policies defined by EU institutions (EC Recovery Plan). The strategy proposed measures and structural changes with long-term-oriented objectives that were to replace the short-term-oriented anti-crisis measures and enable the Slovenian economy to recovery and further develop. In this document, the government identified three basic developmental priorities for the 2010–2013 period (entrepreneurship and skills for development, secure flexibility and social cohesion and developmental, transport and energy infrastructure for an effective and stable environmental balance) in line with the "Europe 2020" Strategy and its three priorities of smart, sustainable and inclusive growth. In the field of employment and work, the Slovenian Exit Strategy declared three basic principles: flexicurity (secure flexibility), security in old age and social fairness and cohesion. In order to achieve secure flexibility, the document envisages lowering labour costs (resulting from high security contributions), making social policies more

effective, linking active employment policy measures to structural reforms and modernising labour market regulation. According to the Strategy, the government basically intended to reduce public sector expenditure, reform the market in terms of the 'workfare' approach, and implement the pension reform. It sought to exchange the minimum wage increase for the unions' support of the announced structural reforms.

However, the proposed exchange was ultimately unsuccessful: the increased minimum wage caused radical dissent and opposition on the employers' side and a corresponding blockage in the social dialogue. Further, despite receiving the minimum wage increase, the trade unions did not support the intended pension system and the other reforms.

Faced with the social partners' dissent, the government decided to unilaterally formulate and implement the intended reforms.

Yet this unilateral policy formation and corresponding side-stepping of the social dialogue had extremely destructive political implications. The weakened and radicalised unions, which had been pushed into opposition by the former right-centre government, and then kept at a distance by the 'centre-left' one, started to articulate their social and political discontent and demonstrated quite an unexpectedly high mobilising capacity. The subsequent political conflicts and referendums led to an escalation of the political crisis and, finally, to early elections. By insisting on its unilateral formulation and implementation of the structural reforms the centre-left government lost the support of trade unions, especially the support of employees in the public sector – the key segment of its electoral base.

**The right-centre government** that was formed after the early elections held in 2011 recognised the problems in the banking sector, announced preparations for a third wave of privatisation – which this time should imply radical internationalisation, but its real priority was to respond to the *budget deficit problems*. In line with its general ideological profile, this new government tried to implement an immediate radical cut in public sector spending. At the beginning, it intended to introduce a 15 per cent salary reduction in the public sector but, following a general strike by public sector employees in April 2012 and negotiations with the unions' representatives, the intended cut was reduced to 8 per cent. The cut was immediately adopted by parliament in the form of an extensive, almost revolutionary law on 'balancing public finances' (Uradni list RS, 40/2012).

After several years of debate and a proposed reform rejected by the former government, on 4 December 2012 the Slovenian National Assembly passed the **pension reform** that has been in force since 1 January 2013. The financial savings in the first year are estimated at €150 million. After rejecting the pension reform that had been proposed by the previous government, after months of intensive social dialogue in a referendum in June 2011 the reform was passed with the consensus of all political parties and social partners. The reform tightens retirement conditions by raising the retirement age for

both men and women to 65 years or 60 years of age on the basis of 40 years of service. The period for calculating the pension basis from the current 18 years is extended to 24 years. Equalisation of the retirement age of women and men will be gradually reached in six years. Critiques raised before the reform was passed that women would carry the major part of the pension reform burden were answered by some changes to the reform proposal. Women will be able to retire earlier – at 56 years or 57 years of age if they started working before they 18 years old and if they had children that they took care of (6 months earlier for one child, 16 months for two, 26 months for three, 36 months for four and 48 months for five children). The proposed equalisation of the retirement conditions for men and women could further discriminate against women since many young women obtain regular jobs later due to statistical discrimination related to parenthood.

In late 2012 a mass civil society movement developed in Slovenia. Provoked by a ‘radar affair’, i.e. rigid traffic control in the country’s second largest city, practically overnight it turned against the current government, its austerity measures, and then the entire political elite. At the core of the movement were public sector employees along with numerous young educated and (often) unemployed people. In January 2013 public sector employees again joined in a new general strike.

Early in 2013 the conservative government, then under the pressure of the movement as well as an internal crisis triggered by corruption scandals, started to disintegrate.

**The third, centre-left government** which replaced the former one in 2013 – in the fifth year of the crisis – focused on the banking sector’s dramatically escalating problems. As mentioned, prior to the emergence of the crisis – in a period of the mass inflow of ‘cheap money’, Slovenia was marked by the growing, uncontrolled indebtedness of companies, new financial entrepreneurs and (state) banks. The crisis caused the breakdown of most of their pre-crisis financial arrangements. Given the extensiveness of the detected problems, the third ‘anti-crisis’ government did not seek to abandon cutting public sector expenditure, but – unlike the former government – it started to search for and create new forms of taxation and, in addition, it announced it would sell off, i.e. privatise, some of the bigger companies still majority owned by the state.

At the start of this third government’s work, in May 2013 the ‘Golden fiscal Rule’ was adopted by parliament. Referendums on all fiscal and financial issues were thereby essentially forbidden. A consensus among the otherwise sharply divided political scene was easily reached in this regard. The narrowing of possible subjects of referendums was warmly welcomed at the European level and noted by the financial markets to whom the message had been directed.

### **1. 3. The process for the adoption of the reforms**

International institutions already had a strong influence on the Slovenian economy before the crisis. The local political elite's experience with the EU influence (mostly via the 'soft' and 'hard' *acquis*) according to the economic growth and good functioning of the Slovenian economy in the 1990s was not at all negative at that time. During the 1990s Slovenia basically accommodated, like other candidate countries, the standards set out in the Maastricht Treaty.

In the first half of the last decade, in the period prior to the ten candidate countries joining the EU, when the policies of the EC and ECB had clearly turned in a neoliberal direction (Meardi, 2012; Crouch, 2011), the stances towards EU institutions and policies were basically still positive and unchanged during the economic boom before the crisis. Therefore, one can say that before the crisis the influence of EU institutions was strong, mostly indirect and more or less positively accepted in Slovenia despite the changes made to policies at the EU level.

In relation to the mentioned occurrence of three successive governments within five years, we can identify three different periods in the crisis that are marked by a different role of supranational institutions in Slovenia. Throughout the last five years, the influence of EU institutions, especially the EC, has been permanently present and strong. It was initially more indirect, but as the crisis escalated it transformed into a sort of direct intervention, i.e. the inclusion of EU institutions in the formation of the local anti-crisis policies and corresponding measures.

In the second year of the crisis, in 2010, the then centre-left government prepared the mentioned *Exit Strategy* in accordance with the EC Recovery Plan. Consistently following the EC guidelines, the Strategy defined a programme of structural reforms. As mentioned, the government's attempt to unilaterally formulate and implement reforms led to conflicts, a massive referendum campaign and, at the end, a serious political crisis and early elections.

The conservative government formed after the early elections in 2011 recognised the state's fiscal crisis as a priority of its anti-crisis efforts. The EU institutions explicitly supported the austerity measures the government had implemented. EC representatives frequently stated at the time that the reforms in Slovenia were 'going in the right direction'. The policy of radically cutting public sector expenditure (i.e. the salary cut) provoked massive protests and social conflicts in Slovenia. This policy was a key factor causing the emergence of the massive civil society movement – the Slovenian 'winter of discontent' of late 2012 and early 2013. This mass civil society resistance was followed by the government's downfall.

Starting its work in the fifth year of the crisis, the third government faced a growing budget deficit, rising public debt and a banking sector crisis. The worsening situation started to influence Slovenia's ratings in financial markets. Then the threat of

intervention by the 'troika' emerged as an additional factor impacting the ratings as well as internal Slovenian politics and the Slovenian public generally. At the end, the need for the 'troika' was avoided and substituted by a series of direct EC interventions.

In the first half of last year (2013), the EC (and ECB) demanded that the banking system reform be accelerated. The focus was on the immediate formation of a 'bad bank' and its activation. Soon after that, the entire procedure of setting up the 'bad bank' was arbitrarily suspended by the EC. In the second half of last year (2013), the Slovenian public perceived that the Slovenian banking sector and, accordingly, the Slovenian economy and society had been the subject of experimentation connected to preparations for future reforms of the European banking system. As a result, Slovenian banks were exposed to stress tests based on a methodology not previously used anywhere else before being applied to Slovenia. This was quite a new experience for the Slovenian political elite and wider Slovenian public alike. The Slovenian political public was shown a new face of 'Brussels'.

In an interview, Professor Jože Mencinger, an influential economist, a minister in the first Slovenian government and later the Rector of the University of Ljubljana, recently described the 'stress tests' problem in the following way:

*Isn't it strange that the two 'banks' holes' (identified by) the stress tests are conducted in terms of two methodologies by respected foreign assessors that differ from each other by 1.5 billion euros, and then this larger one, which has nothing to do with the reality, is selected? They obviously defined the result in advance, the one they needed and which Slovenia is still able to bear, and they then accommodated the 'methodology' to this politically suitable result (Mencinger, 2014: 44).*

In Slovenia's case, the escalation of the crisis therefore obviously overlapped with the direct involvement of the supranational institutions in the formation of its internal policies and measures aimed at helping the Slovenian government overcome the crisis. The effects of the supranational institutions' latest involvements are not yet clear, but the earlier reforms and measures inspired and demanded by EU policies definitely caused the powerful resistance of both citizens and interest organisations in Slovenia.

Slovenian coalition governments have been relatively weak and unstable. Accordingly, they are in principle prone to social dialogue as a potential source of further legitimisation. It was exactly this proneness of Slovenian governments that was strongly accentuated in the 1990s during the process of joining the EU. *The key feature of that period was stable, moderate economic growth.* In the new circumstances after 2008, when the growth had vanished and GDP had declined, all three mentioned governments proceeded with attempts to attract the social partners' support. However, in these new circumstances – regarding the pressures of the crisis, the radicalised stances of the

social partners and the demands of the supranational institutions – they were and have been significantly less successful in attempts to (re)create meaningful social dialogue.

The instability and weakness of Slovenian governments is partly connected to the *proportional electoral system*. Attempts to put the issue on the agenda are therefore permanent. A renewed debate on the electoral system was recently started in Slovenia. Among the parties, the biggest right-centre party (SDS) in particular resolutely calls for the proportional system to be replaced by a majority one. Generally speaking, it is quite possible that introducing the majority system would lead to the greater stability of Slovenian governments. However, the main side-effect would be the reduced ‘sensitivity’ of governments to the demands and pressures of civil society. If we assume that the pressure of the external factor would remain unchanged, then introduction of the majority system would significantly change the ratio between external and internal influences on the government in favour of external factors.

The three mentioned Slovenian governments were and have been faced with an extremely narrowed space to formulate policies. Within the new, post-2008 context, essentially new coordinates of the policy formation space have been created: as the crisis has objectively deepened, on one hand the external pressures have escalated while, on the other, the stances of the social partners have become radicalised.

In these conditions, consensual decision making is extremely difficult, if not unachievable. As a result, faced with the crisis and supranational institutions’ demands, in spite of the risk of rapid delegitimisation, the three governments as a rule tried to narrow and/or avoid the social dialogue (with the now more obviously demanding partners) in the most critical phases of attempts to confine and/or resolve the crisis. The first, centre-left government decided to suspend the dialogue on pension reform and, accordingly, triggered referendums and the rejection of all reforms. The following right-centre government tried to apply radical austerity measures to the public sector, provoking employees in that sector to go on a general strike. The third centre-left government introduced the ‘Golden fiscal Rule’ to the Constitution and thereby put an end to referendums on vital (fiscal and financial) issues. During their short life-spans, all of these governments preserved some forms and topics of the social dialogue, but the results – with the exception of the adoption of the ‘soft’ pension reform during the period of the conservative government – have been more or less poor. Very recently, the Ministry of Labour, Family and Social Affairs launched an initiative to form a new social pact, but it was unsuccessful because it was blocked by the employer’s side. In the discussion concerning the pact (**Social Agreement 2012–2016**) the trade unions have been calling for a strengthening of the social dialogue, a change in what is in their view has been a prevalent neoliberal ideology and policies in recent years, while employers’ representatives desire much greater flexibility and discretion for themselves, lowering the costs of labour and reducing what they see as the irresponsible power of labour representatives (Krašovec and Lužar, 2013). In the latest discussion, the social partners are still expressing different and conflicting views regarding the necessary economic

and social reforms. While the trade unions oppose measures such as a 'social cap' and a new reform of the labour market, the employers reject any measures that would place new burdens on the economy and call for measures that would make Slovenian companies more competitive in the global market.

Therefore, the main result of all of these attempts and avoidances is an implicit common finding that the room for consensual decision making has shrunk radically, i.e. a consensus concerning (the causes and modes of responses to) the crisis is almost unachievable.

These are the circumstances in which the unilateral formation and implementation of governmental policies – which by definition is incompatible with the social dialogue procedure – became the key implementing mechanism of policies defined at the European level. In this way, governments as well as 'European policies' are losing legitimacy and encountering the risk of escalating political instability. In the Slovenian case, such instability is clearly recognisable in the frequent changes in government, the growing passivity of the electoral body and the correspondingly unexpected forms of mobilisation of that body.

In Slovenia, the outlined circumstances mean that the formation of public policies is strongly politicised. 'Solving the crisis' is a motto of the political parties' power game. Yet, despite the inter-party competition, there are no key differences in the basic discourse used by the three post-2008 governments. All have announced the privatisation/internationalisation of the still predominantly publicly-owned companies. The only difference is that the conservatives have interpreted privatisation as a necessary condition for development, and those on the centre-left as a sort of 'emergency exit', which due to the intensity of the crisis is unavoidable. The three governments (have) uncritically adopted the view – which is constantly repeated by representatives of international institutions – that the Slovenian labour market is highly rigid. Reducing the rigidity, i.e. reforming the labour market, permanently featured on the agenda of all these governments.

The key vehicle for reforming the labour market is legislation. So far, it has secured the numerical flexibility of companies through the institute that enables the wide use of short-term employment. The last, third government introduced some changes focused on limiting the use of short-term employment, although that was simultaneously combined with the increasing (external) flexibilisation of the 'rigid' forms of employment.

It was shown that the decline in the trade union density rate in the middle of the last decade, at a time of economic prosperity when the second wave of privatisation had started, was exceptionally intensive in Slovenia. The striking peculiarity of that decline, compared to the general trend of the more or less gradual, decades-long, shrinking unionisation seen in developed Western democracies (Sisson, 2013: 14), was that it

happened within the span of just a few years. The first response of the trade unions' leadership to this sudden drop in membership was logical and expected. They started to turn towards the membership environment (Streeck and Kenworthy, 2005), i.e. towards the everyday interests and demands of ordinary workers. As the processes outlined above suggest, the demands of ordinary union members are radical and normally embedded in the particularities of their specific, narrow working conditions and corresponding workplace and sectoral interests. Therefore, the trade unions' turn towards their membership environment implies, as has been the case everywhere that such a turn occurred, an almost 'automatic' radicalisation and the fragmentation of the trade unions' stances. In terms of the social dialogue and the formation of consensual policies, these radical stances are obviously less functional.

In spite of the significant membership decline seen before the crisis emerged and despite the changes in the trade union environment, today Slovenian unions are still quite influential organisations. They are embedded in the (still) inclusive collective bargaining system, which is a vital instrument for regulating the labour market and, accordingly, of the entire neo-corporatist institutional arrangement. During the roughly described conflicts and referendum campaigns at the beginning of the crisis they in fact demonstrated exceptional mobilising capacity. It could be that the first government, probably referring to findings concerning the decline in trade union membership, essentially underestimated the trade unions' power. The two successive governments tried to form more constructive relations with the unions: the second one included unions in the formation of the 'soft' pension reform, while the third one sought to launch the formation of a new social pact.

Similar processes happened on the employers' side where the main stances became radicalised in opposite directions. The status change of two chambers from obligatory to voluntary membership – in the case of the Chamber of Commerce and Industry in 2006 and the Chamber of Craft and Small Business in 2013, imply a radical turn towards potential members. Such members have argued more or less consistently for radical cuts to taxation, increases in labour market flexibilisation, and complementary institutional and regulatory changes. All of these empirical demands, which voluntary employers' organisations have to respect, are in terms of interests critically represented by unions outside the space where dialogue and consensus among the actors are at all possible.

The density rate of employer organisations decisively influences the regulative capacity of a collective bargaining system. A falling density rate of employer organisations indicates a shrinking collective bargaining coverage rate and, thus, a weakening of the main institutional infrastructure for developing social dialogue.

During the entire post-2008 period, the social partners have participated in the work of the tripartite Economic and Social Council (ESS) where they have been included in debates and decision making on some reforms (like the 'soft' pension reform). But the

real influence of the partners, especially the unions, on the formation of policies is almost incomparable to the influence they once had in the 1990s.

It was mentioned that in late 2009 the first post-2008 government decided to increase the minimum wage in Slovenia (see: Zakon o minimalni plači, Uradni list RS, no. 13/2010). Unions supported the minimum wage increase, but the employers were firmly opposed to it and started to block the work of the ESC. Later, the government tried to win the social partners' support for the intended package of structural reforms, but – in light of the inflexible position of the government negotiators and the unions' opposition – the attempt was unsuccessful. The central issue of the whole conflict was the pension reform. During the second post-2008 government, after the general strike in the public sector, 'concession bargaining' took place within the ESC. In the same institution under the same government the social partners adopted the mentioned 'soft' pension reform.

Slovenian employer organisations share the view (along with governments and international organisations) that the Slovenian labour market is too rigid and should be deregulated, i.e. made more flexible. On this point, all post-2008 governments have had strong support from employers. Yet the unions resolutely and systematically reject this view.

## **2. The substance of the reforms**

The key change strongly influencing the collective bargaining system in Slovenia was the abovementioned status change of the Chamber of Commerce and Industry in 2006. This may be combined with a similar recent change in the case of the Chamber of Craft and Small Business. As mentioned, both changes have had and will continue to have a profound influence on the collective bargaining coverage rate.

The second big change with a significant influence on power relations in Slovenian society did not occur in the labour law, but at the level of the Constitution. As mentioned, the third post-2008 government proposed and parliament almost unanimously adopted the 'Golden fiscal Rule'. In terms of implementing EU policies which could hardly be consensually accepted, adoption of the 'Golden Rule', i.e. a ban on referendums on fiscal and financial issues, was a logical constitutional change unanimously accepted by the political elite.

The main problem is that this logical change has not improved levels of trust and the social dialogue in Slovenia. On the contrary, adoption of the 'Golden Rule' has changed the power relations between the social partners. In fact, it has strongly transformed the key parameters of Slovenia's former, traditional neo-corporatist, consensual decision-making processes.

After long-lasting negotiations between the social partners, on 5 March 2013 the Slovenian parliament passed a new **Employment Relationship Act**. The main aim of the new law is to make the Slovenian labour market more flexible while reducing its segmentation. Changes were mainly directed at a reduction of differences among employment contracts for fixed-term and open-ended contracts; a reduction of notice periods; simplification of dismissal procedures; prevention of the perpetuation of fixed-term agreements.

As already explained, the key starting reforms that caused a shock and strongly disturbed Slovenia's industrial relations system established in the 1990s were started *before* the crisis, in the middle of the last decade, during a period of economic prosperity.

First, the mass inflow of cheap money and corresponding growing indebtedness of companies clearly represented an exceptional shock. The inflow of cheap money influenced the formation of unrealistically expansive business strategies and enabled the privatisation of some key companies (and the corresponding emergence of 'tycoons' in certain key areas of the Slovenian economy, e.g. in the construction sector and the food industry). At the micro level, this shock led to the worsening of working conditions and changes in the distribution of power in favour of management and potential new owners.

Second, the country's admission to the eurozone was a sort of 'monetarist turn'. It also had a big impact on relations within companies as well as between companies and sectors of the national economy. The greatest, immediate impact of the turn, which implied introduction of a fixed exchange rate, was on labour and industrial relations in the export sector of the economy.

Third, the attempted radical neoliberal reform triggered in the middle of the last decade, prior to the emergence of the crisis, also had a shock effect which immediately caused the strong polarisation of society and the politicisation of the stances of all social partners. This polarisation and politicisation represents a historical turning point in the development of the industrial relations system in Slovenia. The conflicts from 2005 have strongly influenced all later perceptions and mutual relations of all actors during governmental reform attempts in the post-2008 period.

The scope for the joint regulation of the terms and conditions of employment has decreased in Slovenia in the post-2008 period. Notwithstanding the still relatively high collective bargaining coverage rate, it is continuing to drop. Krašovec and Lužar (2013) report the following **impacts of the crisis on industrial relations** in Slovenia: increasing breaches of collective agreements on the part of employers, especially regarding bonus or holiday pay (non-payment of wages in accordance with the CA

skyrocketed from an annual rate of 462 in 2007 to 2,596 in 2010); increasing workers' unrest and the number of strikes; and a rise in unilateral and hasty government interventions in public sector working conditions and the growing militancy of the trade unions. Accordingly, the regulative capacity of the collective bargaining system is lower than before. In addition, exposed to growing competitive pressures employers are tending to exit the system and/or avoid its standards. These tendencies are especially strongly emphasised in small and medium-sized companies.

At the macro level, the scope for the consensual formation of public policies on work and employment has narrowed significantly. The main cause of this change has been the fading conditions for the political exchanges which in the 1990s enabled this type of policy formation.

At the micro level, due to the pressures of the crisis and the growing unemployment, the power relations between employers and employees have been altered in favour of the former.

As a result, the managerial prerogative and workforce flexibility have increased significantly.

The role of the state in its substantive, interventionist function has expanded considerably during the crisis. During the formation of the nation and accommodation to EU standards, this function of the Slovenian state was already strongly accentuated, and in the post-2008 period this has further increased.

During the crisis, in the context of the abovementioned rising unemployment, i.e. greater competition in the labour market, job security has been falling for all categories of workers. In these circumstances, there has been a dramatic escalation of the functional and time flexibility of workers employed under open-ended contracts. The rise in all forms of flexibility has especially hit employees on fixed-term contracts. Young people dominate this category of workers.

In 2009, the European Agency for Safety and Health at Work released the results of a **Europe-wide survey on safety and health at work**. According to the findings, Slovenian citizens are concerned that the economic crisis may adversely affect workplace health and safety. Although the respondents feel they are well informed about health and safety at work, they believe that ill health is often caused by work and that health and safety have deteriorated in the past five years. The survey revealed gender differences regarding perceived bad influences on health: 52% of female survey participants in Slovenia responded that a great deal of ill health is caused by the job, compared with 42% of male respondents. Many more respondents in Slovenia (55%) than on average in the EU-27 (32%) think that workplace health and safety have deteriorated in the past five years. Again, men in Slovenia see the situation more positively than women: a significantly greater proportion of men (41%) than women

(28%) believe that health and safety at work have improved in Slovenia over the past five years. Respondents in Slovenia (81% of them) also more often than respondents in the European Union on average (61%) expect that the global economic crisis will lead to a deterioration of health and safety conditions at work in their country. Again, more women (86%) than men (76%) in Slovenia think that health and safety conditions at work might further deteriorate due to the economic crisis.

Some analyses show that the fear and insecurity of employees during an economic crisis is often followed by a lower sick leave rate. Research by the **Slovenian Institute of Public Health** established a positive correlation between health absenteeism and a company in crisis. The research was performed in three companies (tobacco, textiles and leather sectors) and showed that planned downsizing and bankruptcy triggered an increase in the sick leave rate (Mrčela, 2011a).

A report of the Association of Free Trade Unions of Slovenia **on migrant workers** in the construction sector in 2010 disclosed: that is quite typical for employers not to give a work contract to foreign workers, thus diminishing their chances of protecting their rights or even learning about them in the first place; that foreign workers who have work permits and could be employed on an open-ended contract are often employed on a fixed-term contract basis; poor living facilities for migrant workers and the lack of formal regulation in this area; a rising number of breaches of labour laws governing the employment and working conditions of foreign workers (318 breaches recorded in 2008 and 340 in 2009) (Mrčela, 2011).

The crisis, the growing labour market competition and greater job insecurity represent a major threat to the quality of work in Slovenia. Despite policies and measures focused on preserving the already reached standards concerning gender equality and the work-life balance, the position of women in terms of employment, working conditions and the work-life balance has worsened in the recent period. Based on data on the unequal gender distribution of unpaid work before the crisis (Kanjuro Mrčela and Černigoj Sadar, 2011), increasing burdens on household expenditures and increased insecurity of household incomes, one may expect additional pressure on women who traditionally perform more unpaid household and care work. OECD (2011) data show that in Slovenia people perform more unpaid work compared to other countries. According to Eurostat data from before the crisis, in Slovenia greater gender inequality in the division of labour in the private sphere exists than in other EU countries (European Commission, 2006) with the total working hours of women in Slovenia being longer (consisting of gainful and domestic work) than of men. Some of the latest analyses (Kanjuro Mrčela and Ignjatović, 2013) confirm that Slovenian women are more overburdened by paid and unpaid work, they report less autonomy in the workplace, are less satisfied with their working conditions and they report more physical and mental problems that are associated with work than men.

We estimate that the austerity measures passed by parliament in May 2012 that temporarily reduced compensation for immediate post-natal childcare leave (a 10% reduction after three months) have negative consequences (reducing the possibility that men will use such leave; creating a value statement that caring for children is less valued than paid formal work). A recent study on the impact of the crisis and the austerity measures on the situation of women and men and gender equality in Slovenia (Humer and Roksandić, 2013) shows that the government did not consider gender-specific consequences of its adoption of the anti-crisis measures. The analysis concludes that the austerity measures have had significantly greater negative effects on women than on men and threatened women's economic independence. A gender-sensitive analysis of the austerity measures is an important and necessary step for preventing short- and long-term negative consequences of those measures on gender equality.

The overview of the nature of the reforms during the crisis and their dynamics in Slovenia reveals a pattern of temporal, reactive, forced reform interventions that have generally been – especially very recently – in line with the priorities of the supranational institutions.

In Slovenia the reforms are most frequently justified by explicit reference to ‘Brussels’ demands’, recently also strongly by ‘financial market pressures’. These are the prevailing types of general justification arguments employed in discussions concerning all types of responses to the crisis. Such explicit justification of the reforms was especially strongly and frequently used in the debates and conflicts on the austerity measures in the public sector and the recent implementation of policies concerning the banking sector crisis.

In spite of the changing priorities, the reform attempts made so far in Slovenia have been paradigmatic. The main common denominator of all these attempts and partial changes is the deconstruction of Slovenia’s coordinated market economy that occurred in the 1990s and its reorganisation towards a system which is closer to the model of a liberal market economy.

### **3. General assessment of the reforms**

The Slovenian neo-corporatism that was present in Slovenia in the 1990s has obviously encountered the powerful processes of its disorganisation over the last decade.

We have tried to show that the Slovenian neo-corporatist system has had some significant limitations. In the context of accommodation to the standards contained in the Maastricht Treaty it functioned as ‘competitive corporatism’. After a decade or so, this system started to manifest the first signs of its internal self-exhaustion.

We mentioned that the system's self-exhaustion overlapped with Slovenia's inclusion in the EU and then in the eurozone in the mid-2000s. The combination of the monetarist turn with the mass inflow of 'cheap money' and corresponding growing indebtedness of companies led to further rapidly increasing pressure on and within companies, especially those from the export sector of the economy.

All of these processes overlapped with a major change in Slovenia's political scene. In 2004 the centre-right coalition tried to take advantage of the shock of the country's inclusion in the monetary union and the mass inflow of cheap money to justify a radical neoliberal change to the system. These policies provoked an open conflict with the trade unions. At that time, the status of the Chamber of Commerce and Industry was changed. Accordingly, the stances of the main interest organisations then underwent a rapid polarisation.

All of the outlined changes to the political scene as well as among the interest organisations in the years *before* the crisis emerged reveal that the Slovenian IR model had already been exposed to intensive, significant pressures and changes in that period.

Alongside these changes, the emergence of the crisis further undermined the key factors of the social dialogue in Slovenia. From 2008 until today, three different party coalitions have come to power. We revealed that their responses to the crisis differed significantly: the first government tried to implement structural reforms, the second focused on fiscal consolidation, while the third on the crisis in the banking sector. As the crisis escalated, the dependence on external, supranational institutions increased. After the crisis emerged, the factors and processes undermining the social dialogue obtained a significant impetus. The unilateral forms of anti-crisis policy formation gradually came to the forefront.

The Slovenian case clearly reveals that the rising public debt and, accordingly, increasing dependence on the supranational institutions and financial markets, are strongly correlated to the growing unilateral implementation of the demands and pressures of these institutions. In terms of these processes, the (still) relatively high share of the predominantly publicly-owned companies as well as the relatively high level of Slovenian labour market regulation, are dysfunctional. A permanent subject of the international institutions' criticism is thus the 'rigidity' of the Slovenian system in general, and especially the labour market's 'inflexibility'; with the main responses suggested to address these being privatisation and 'labour market reforms'. In fact, it seems that the third wave of privatisation, this time based on an inflow of foreign direct investment, of some still efficient and capital-intensive, state-owned companies, is unavoidable. The problem with this intended privatisation is, as the early inflow of FDI into Hungary suggests, that this response basically only postpones, i.e. temporarily and partially 'resolves', the local debt crisis.

We mentioned that very recently European institutions and local governmental policies have focused on the crisis in the Slovenian banking sector. Suggested responses to that

problem almost automatically deepen the other, already critical problem – the fiscal crisis of the state. All attempts to respond to this problem have caused open social conflicts in Slovenia. Especially the austerity measures in the public sector and the threatening marketisation and privatisation of that sector have caused growing discontent not only among employees within this sector. General resistance to the dismantling of the public sector is exceptionally strong in Slovenia.

#### **4. Results of the field work**

In order to assess the actual impact of the labour market reforms on collective bargaining and critically evaluate the implications for the role of the state and the social partners as well as the prospects for continuity and change in the national system of industrial relations in Slovenia, we analysed primary and secondary data collected during the second phase of the research work. Our research pointed to some issues that we think are specific for Slovenian post-socialist transition while others are probably more common and connected to the situation of the European economy in crisis.

The context of the analysed changes in social dialogue is characterised by the uneasy economic and turbulent political situation. During the crisis, real GDP growth in Slovenia decreased from 3.4% in 2008 to -1.1% in 2013. The unemployment rate increased from 4.4% in 2008 to 10.1% in 2012. After the downfall of the short-lived centre-right governing coalition and a year of the centre-left government of Alenka Bratušek, at the early parliamentary elections held on 13 July 2014 the winning Party of Miro Cerar (SMC) won 36 mandates in the Parliament and Miro Cerar formed a new centre-left government coalition.

##### **4.1 Methodology and research design**

The field work performed in order to collect relevant data concerning developments and changes in social dialogue in Slovenia during the crisis consisted of two phases. First, we conducted interviews with relevant stakeholders and analysed the obtained data. In the second phase, we organised a workshop with the interviewed stakeholders and representatives of the social partners. The purpose of the workshop was to present the outcomes of the first phase of the analysis to the social partners and to obtain their feedback and verification of the research findings. In the following report, we will present the results of both phases of the work.

In May and June 2014 we contacted and conducted interviews with representatives of relevant stakeholders at the three levels – national, sectoral and company. To gain an overall insight into the situation regarding the social dialogue at the national level, we

interviewed the high representatives of the government, the biggest Slovenian trade union confederation and three of the four most important Slovenian employers' organisations (the Minister for Labour, Family, Social Affairs and Equal Opportunities, the president of the biggest trade union confederation in Slovenia (Association of Free Trade Unions of Slovenia, Zveza svobodnih sindikatov Slovenije – ZSSS), general secretary of the Chamber of Commerce of Slovenia (Gospodarska Zbornica Slovenije, GZS), the president and director of the Chamber of Craft and Small Business of Slovenia (Obrna Zbornica Slovenije, OZS) and the general secretary of the Association of Employers in Craft and Entrepreneurs of Slovenia (Združenje delodajalcev obrti in podjetnikov Slovenije, ZDOPS). The last three interviewees were selected to give us an insight into the situation in smaller companies because both companies we had decided to analyse in detail were big companies.

In our analysis we paid special attention to two sectors: a) the metal and electro industry; and b) the chemical industry. We analysed two companies within these two sectors (a white goods manufacturer and a pharmaceutical company). At the sectoral and company levels, we interviewed representatives of workers (president of the Trade Union of the Metal and Electro Industry – Sindikat kovinske in elektroindustrije Slovenije, SKEI<sup>1</sup>, the general secretary of the Trade Union of the Chemical, Non-metal and Rubber Industry of Slovenia, Sindikat kemične, nekovinske in gumarske industrije Slovenije – SKNG<sup>2</sup>, representatives of two companies' trade unions) and representatives of employers (director of the Association of the Metal Industry at the Chamber of Industry and Commerce, Združenje kovinske industrije, GZS, and HR managers in two analysed companies).

The two chosen sectors are interesting since they provide useful illustrations of the changes in the social dialogue in Slovenia in the last decade. There are examples of good social dialogue practices and also problems in the social dialogue in the two selected sectors. While some best examples of good practices (such as in Krka<sup>3</sup>, the company we chose for the case study) may be found in the chemical sector, in this sector the collective agreement was cancelled by employers in 2013 and there are cases of social dialogue problems (e.g. in the company Helios where recently a trade union representative was to be fired over a conflict with management during and because of the privatisation process). The metal and electro sector is a sector in which Gorenje<sup>4</sup>

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<sup>1</sup> SKEI ([http://skei.si/o\\_nas/](http://skei.si/o_nas/)) covers around 40% of workers in the sector and is a member of ZSSS, the International Metal Federation (IMF) <http://www.imfmetal.org> and the European Metal Federation (EMF) [www.emf-fem.org](http://www.emf-fem.org).

<sup>2</sup> SKNG is a member of ZSSS and covers more than one-third of workers in the sector.

<sup>3</sup> Krka, d. d., Novo mesto is an international generic pharmaceutical company with its headquarters in Novo Mesto, Slovenia. In 2012, the Krka Group's total sales amounted to €1,143.3 million. It was founded on 23 April 1954 (<http://www.krka.si>).

<sup>4</sup> The Gorenje Group is the largest Slovenian manufacturer of white goods. With a continent-wide market share of 4%, it is one of the eight largest manufacturers of home appliances in Europe. It was founded in 1950. (<http://www.gorenjegroup.com/en/gorenje-group/about-gorenje-group>).

(the other company we analysed in more detail) used to be a social dialogue role model but experienced difficult times concerning the relations of management and workers while still being one of the most successful companies in the sector. The sector has one of the strongest (and according to many the most militant) trade unions in the country, SKEL, that led some successful recent strikes. On the other hand, some of the most radical ideas regarding changing the legislative framework of industrial relations (e.g. abolishing the minimum wage) came from employers in this sector as well.

The two companies we selected for the analysis have a long history of being successful business entities and also being exceptionally good regarding the social dialogue. They both have dispersed ownership, and Krka mainly has Slovenian owners. These two companies used to be rule-makers in their industries but lost this status mainly due to the worsening situation in their sectors that made Krka with its excellent social dialogue practice an exception, while Gorenje's business adjustments and ownership changes have caused turbulence in the company's social dialogue.

#### **4.2 Implications of the reforms on the *process* and *character* of collective bargaining at the sectoral and company levels**

The field research revealed the indices of decentralisation of collective bargaining in Slovenia. Although one cannot (yet) detect an entirely new pattern in terms of the articulation at different levels of collective bargaining (e.g. a complete shift from sector to company level), there are signs of a change in that direction such as the cancellation of the collective agreements for some sectors (among others for the chemical and rubber industry) as well as (informal) agreements reached at the company level in order to avoid redundancies. Our respondents reported on a change in the duration of the collective agreements – while collective agreements were previously signed for an indefinite period, now they are more often signed for a fixed term and that term is ever shorter. More than 100,000 workers are not covered by collective agreements (temporary agency workers). According to our respondents on both sides – employers and trade unions are interested in achieving a collective agreement that would cover these workers<sup>5</sup>, but an agreement on the level of standards that would be respected in the agreement has not yet been reached.

No procedural guarantees in sectoral-level bargaining are in place that would guarantee the avoidance of the development of a 'disembedded' form of capitalism. On the contrary, the new labour legislation allows more flexible arrangements that let social partners have more autonomy at the sectoral level. Our respondents mentioned the new labour law as a reason for more intensive collective bargaining at the sectoral level since the collective agreements should be harmonised with the new legislation. A trade

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<sup>5</sup> There are different opinions about the coverage of agency workers with collective agreements. According to some commentators, agency workers should be covered by the collective agreement that covers the company they are working for and not by a separate collective agreement.

union representative stated that the new collective agreements have introduced all the reductions of rights that are allowed by the new law “to make it easier for the employer... Everything that the law allows as an exception is used as a rule”. The new collective agreements do not cover the same scope of topics as before: “our collective bargaining is not like the German one. We are not trying to achieve something better, different, something more, more useful. They deleted 30 out of 90 articles. They, for example, deleted the whole part on education. We sat with the employers’ representatives for a whole day as part of the European project “The importance of education in the electro and metal industry” and learned how education is important for individuals, for employers, for careers, for competitiveness. And a week later we got the collective agreement with the part on education deleted”.

The factor that works against the development of disembedded capitalism (besides the workers’ interest in being protected and the trade unions’ pressure to secure that) is the employers’ fear of unfair competition from employers who are not respecting decent standards of employment and remuneration of workers.

“We are, contrary to some opinions, in favour of collective bargaining because we do not want to create instability in sectors without collective agreements. That would mean unfair competition to those who have collective agreements and a long tradition of social dialogue” (Employers’ representative).

Most of the employers’ representatives revealed that change in the employers’ perception of social dialogue – seeing the positive outcomes of collective agreements beyond securing social peace. On the other hand, a trade union representative expressed a fear of a reduction in the number and quality of collective agreements at the sectoral level.

“The whole of Slovenia is fleeing from sectoral collective agreements. In some places directly – where they dare they just cancel them, otherwise they have curtailed them in the process of change... No new collective agreement has brought any improvement ... I am sure that employers want to cancel collective agreements at the sectoral level. That is now obvious. The social dialogue is such a truism in Slovenia” (Trade union representative)

Some employers’ representatives pointed out the interest of the employers’ side in the social dialogue:

“Today a bad collective agreement (that does not protect the interests of employers) could cause the collapse of some companies... Bipartite collective bargaining is more constructive than tripartite social dialogue... That is because some (on the trade union

side) do not understand that jobs are at stake... a badly bargained collective agreement would jeopardise jobs....”

Many of our respondents estimated that collective bargaining in Slovenia is **still more cooperative than conflictual**. On the other hand, a representative of one employers’ organisation estimated that the process of social dialogue varies greatly among sectors – while in some “the process itself did not change at all, ... there are sectors such as construction or textile where there is practically no social dialogue anymore”.

It seems that in some places procedures going on by default but bringing fewer results than expected and needed.

“First you present, then we present, then you rasp a little and we growl a little, then we agree on something and say that we can’t agree on another thing and that remains unsettled, and we go on. No offenses, no revolution!” (Employers’ representative).

A trade union representative who assessed social dialogue as conflictual accused employers who instead of improving and finding better solutions “try to curtail even that what exists, while we (trade unions) try to defend it”.

The other trade union representative assessed collective bargaining as much more difficult than before because of employers’ ever more proposals that interfere with what trade unions regard as fundamental workers’ rights such as a seniority bonus, a paid lunch break, or compensation for sick leave.

According to our respondents, there are not many **concessions in sectors/companies** on the trade union side where collective bargaining takes place. Trade unions do not accept much lowering of standards in collective agreements. However, there are many examples of internal company agreements where (temporarily) lowering salaries (and standards of other working conditions) are accepted in order to avoid redundancies.

“There are plenty of cases where management said ‘We will reduce our salaries by 20% and yours by 10%, but we will save jobs’... that were resolved without any conflict. That happened in companies where people believed in the company’s future” (Employers’ representative).

We did not detect the development of a generally hostile environment and an anti-labour relations discourse that is framing and undermining the legitimacy of bargaining. However, there are some (for the moment) quite isolated examples of employers/managers expressing radical positions such as a demand to abolish minimum wages or not pay workers while they are on sick leave. One of our

respondents estimated that these radical individuals are loud representatives of more widespread opinions among the silent majority. Our respondents mentioned the Managers' Association as being (in the past more than presently) a promoter of more radical employer agendas.

Segmentation of the workforce poses a challenge to trade unions that are pressed by their members (who are paying membership fees) to differentiate among members and non-members and to protect better the members. A trade union representative assessed such demands as being both against the principle of trade union solidarity and not very efficient – because “if you protect the weakest ones, you are securing basic standards for all”. Trade union representatives commented on the changes in attitudes – according to them, people, especially from the younger generation, express less solidarity.

Some representatives of both trade unions and employers discussed the need to find ways to institutionally ease the social dialogue by providing financial resources that would enable the social partners to take a long-term-oriented and strategic perspective (compulsory membership, government funds or similar).

#### 4.3 The survival of social dialogue?

This government is not afraid of employers. No government until now has been afraid of employers. They are afraid of trade unions! (Employers' representative)

**The role of the state** was differently assessed by our respondents but there is no doubt that it plays a decisive role in framing the social dialogue. The state has an important role in defining the framework for collective bargaining primarily with statutory regulation but also through placing more or less importance on the process and outcomes of the social dialogue (its involvement, mediation in cases of conflict among social partners).

The representative of the state estimated that the “small steps” made while reforming the legislation and policies did not cause any tightening of the social dialogue framework. She estimated that a new law on representativeness would be needed to improve the social dialogue.

“At this moment the state is a guardian of the existing state. Of the status quo. For me – that is a negative intervention. I would like that the state allows me to employ more and to fire more easily” (Employers' representative).

The representatives of employers estimated that state policies are oriented to securing the rights of workers on the account of employers. One employers' representative gave as an example the Law on the Minimum Wage that he believes seriously weakens the bargaining position of employers. Trade union representatives, on the other hand, reported on last year's attempt by the government to impede the Law on the Minimum Wage: "We were preparing big demonstrations and we would do all sorts of things. It was a serious threat ... then the government tried with an alternative proposal – to allow exceptional agreements at the company level below the statutory minimum wage ... that would be a complete withdrawal from the concept of the minimum wage ... as we know who would be the weaker partner in such a dialogue. We rejected that proposal as well".

"Our partner, when we look each other in the eyes and fight, is the state. The state can be influenced by capital" (Trade union representative).

A trade union representative pointed to the legislative practice that "protects the interests of capital more than the interests of workers" as an interpretation of the otherwise good rules/legislation being in favour of employers. An example of that is the legislation on the employers' duty to pay social contributions for workers. Many employers violate that rule, but before the courts they are often found not guilty as the interpretation is that they did not intend to violate the rule but were forced to do it by the bad business situation.

"Capital dictates. At this time of crisis the power of capital has increased regardless of all the rhetoric and policies" (Trade union representative).

An employers' representative pointed out the importance of the "perception of Slovenia" in eyes of the international community for the business condition of our economy and to the danger that an unstable or unfriendly fiscal, political or regulatory framework scares "shy capital" away. She mentioned that the "strike of capital" we are experiencing (the lack of foreign investments) is a result of Slovenia's lack of hospitality towards foreign capital. The employers' representative expressed an opinion that to be competitive in the global market the Slovenian business environment should be as "comparable to the international environment" as possible (regarding all legislation, rules and arrangements including wages and bonuses, social security contributions, maternity/parental leave arrangements).

Employers noted the statutory regulation of wages and working time are particularly problematic and something that should be changed by the state to allow employers to compete equally with others in Europe. The high contributions that make Slovenian

wages comparatively high are, according to employers, not allowing them to obtain (domestic) and recruit (foreign) the best human potential – creative and highly educated experts.

“Our employers would prefer to pay workers higher net wages than gross wages because they like their workers more than the state”(Employers’ representative).

“It costs an employer €200 to give a worker a €100 higher net wage” (Small employers’ representative).

Employers would also like the state to improve the business circumstances including banking and bureaucratic procedures.

The representatives of smaller employers and entrepreneurs expressed a much stronger concern regarding the actions and decisions of the government than of their trade union partners in the social dialogue. They were critical of government which they believe does not see the specifics of small enterprises and proposes legislative changes without reflecting on the negative effect of them for this part of the economy (we were given examples of real-estate taxation which would more than double taxes for 95% of their members and legislation regarding safety at work that threatened to fine employers who do not report on work conducted above 2.5 m in height with fines ranging from €7,000 to €25,000).

When talking about the trade unions, the representatives of small employers mostly referred to powerful public sector unions (“...some trade unions give some populist statements and create unnecessary tension ... sometimes we are hostages of trade unions, particularly in the public sector”) and not to the unions covering workers in their members’ companies.

“If we were to communicate directly with the trade unions, without the government, it would be easier to reach an agreement...” (Small employers’ representative).

The approaches of employers’ organisations/employers are more varied than before as a result of the existence of **divergent interests among different employers**. On some issues smaller and large employers have “diametrically opposed interests” (e.g. insolvency legislation). Employers differ regarding their business results as well. A respondent from an employers’ organisation explained that differences in added value per employee among companies in the same sector could amount to 1:5 and because of that there are many of “those who are pushing radically: ‘don’t make any concessions, lower costs if you want us to survive, otherwise we will exit’”. The fear of losing members is forcing employers’ representatives to radicalise their positions in collective bargaining. While employers’ representatives argued that they have to take care of the interests of the weakest members, the trade union representatives argued that the standards have to be high enough to provide workers with decent working conditions:

“A collective agreement can’t be such a minimum to allow every thief to survive. A standard should be set. Those who achieve the standard could play the game and those who don’t should close down before sending workers to a mental hospital.”

Our respondents revealed that collective agreements had not only been cancelled in sectors that have problems, but also in those in a good condition. Those acts that were seen by the trade union side as a “blackmailing attempt” were also explained by the position of the employers’ organisations in which some representatives hold radical positions in order to attract new members, demonstrating that they will be able to protect their interests: “like in some trade unions, some people want to show up, to justify their position, even to recruit new members with a certain attitude” (trade union representative).

Although some divergences exist among employers within certain sectors, employers find some similar interests across sectors. One respondent pointed to the increasing regional connections and communication of employers.

Many trade union representatives we talked to assessed the process of social dialogue as being strongly influenced by **the new context** in which trade unions have **lost members** in some sectors<sup>6</sup>/types of employment and which is characterised by the **strength of the neoliberal ideology and policies**. Even some of the strongest trade union representatives in the country expressed some doubt about whether resisting the change is the best approach: “We have that problem of differentiation between categories of workers; maybe trade unions produced that by insisting on employment for an indefinite time. I do not know. It is a question of what would happen if we didn’t insist. Everyone would be precarious workers. It is hard to say... now there is really one part of the workforce without any chances, not organised ... look at these young agency workers – all outside the trade unions”.

Trade union representatives reported that workers (and trade union representatives) are afraid to speak up and fight for their rights in fear of losing their jobs.

“There is a fear. A terrible, unexplainable fear, that should be overcome ... they are depending on the employer and they do not dare. They are afraid of losing their job. What will you lose? You don’t have a job. It is just a state in which you are miserable and without money” (Trade union representative).

Some respondents mentioned the power of public sector trade unions as being a counterbalance to the reduced power of industrial trade unions. Because of their

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<sup>6</sup> According to the trade union representative, most members were lost before the crisis and primarily due to the closure of factories (in textile the number of workers declined from 80,000 to 5,000 and in the construction sector the closure of three big companies reduced the number of workers by 30,000, the number of workers in the chemical sector today equals the number of members SKNG used to have in this sector).

disciplined and numerous membership, public sector trade unions hold great mobilisation power. Some employers' representatives regarded this power as unfounded and problematic.

A few employers' representatives pointed to the high mobilisation power of trade unions in the industry despite their loss of membership. This was proven by the mobilisation of workers – ranging from the strike of Gorenje's workers in September 2009 when they blocked the factory's entrance, demanding a pay rise to the number of strikes/public meetings against the austerity measures in the last several years.

One respondent assessed that the relative power of the two sides in the social dialogue is also impacted by the low status of the managerial profession caused by many once celebrated managers who have recently been found to be corrupt, guilty of illegal business and ownership activities while, on the other side, trade unions act to protect the victims of the post-socialist changes.

Our respondents estimated that the actors of the social dialogue are developing their **institutional and cognitive resources and capabilities/capacities**. Some stressed the already well-developed expertise on the trade union side at the national/sectoral level (superior to that of the employers), while many expressed a need for improvements at the company level. A trade union representative defined trade union representatives in companies as “the trade unions' weak point ... these are non-professionals employed in companies, dependent on the employer, doing trade union work on the side”.

#### **4.4 Small is beautiful?**

We were reminded of the big differences that exist among **employers of different sizes** in the two analysed sectors as well as across the whole economy. In small companies, the relationships between employers and workers are more personal and informal. ‘Social dialogue’ is often a one-to-one communication. That could put workers in a better position:

“almost like in family as everyone knows everything ... and sometimes when there is no money, they gave workers some cash from their own pocket under the table to survive. Our employers would not lightly leave their workers hungry”.

or in a worse position because of the lack of collective representation if working for “slave owners who are interested in immediate profit”.

Representatives of the small employers' organisation made it clear that there is a big difference among the majority of their members being hardworking entrepreneurs and family companies with many decades of tradition (who treat their workers as family

members) and some exceptions – short-term-oriented entrepreneurs with “unnatural growth” mainly in construction (who do not treat workers correctly).

Since conflicts among workers and employers in small companies are personal, alternative ways of conflict resolution (such as mediation) are more appropriate. A representative of employers in craft and entrepreneurship reported on the introduction of mediation as an instrument of conflict resolution.

“The employer knows everything about the worker and the worker knows everything about the employer. When they fight, they fight like in a family because of personal issues”.

The power of the trade union of workers of crafts and entrepreneurship of Slovenia that signed the oldest collective agreement in Slovenia was estimated by the employers’ side as “not particularly strong” because of its dispersed and mixed membership that is hard to mobilise.

Members of the Association of Employers in Craft and Entrepreneurs on average employ fewer than three workers. They are engaged in very different activities and their needs and problems are specific. Because of that, their association is currently pressed to negotiate specific agreements for some activities. Our respondents reported that it is hard to find common strategic interests and mobilise members to achieve them also because “the members do not think strategically. It is in their nature to think practically, how to survive... they are not particularly prone to contributing to the common good ... the fact is that there is no strong identification”.

Small employers lack personnel and knowledge capacities. Their representative estimates that most mistakes in the social dialogue in this sector are due to a lack of knowledge and information. He also pointed to the sometimes unjust treatment of small employers who are unfairly identified with bigger employers and thus seen as the stronger side compared to workers regardless of the fact that there are “20–25% of members in the sector who are living on the edge of poverty”.

**Small businesses in crisis: Employers and workers together at the risk of poverty**

“We have roughly 20–25% of people who are living on the edge of poverty. And they are still heroes and playing the game... self-employed or having a worker or two employed. And these two are bearing ... although probably without the minimum wage, saying ‘it is better to be here as we have been together for 20 years’... (Employers’ representative).

Some of the self-employed ‘entrepreneurs’ are probably part of the phenomenon of “entrepreneurialisation” we were told about by one trade unionists – the rising number of workers who, after losing their jobs, continue to work for their former employer as an ‘independent entrepreneur’. While present in other countries but relatively new in

Slovenia, that phenomenon is very likely to produce a very vulnerable group of self-employed workers.

#### **4.5 Implications of the reforms for the *content* and *outcome* of collective bargaining at the sectoral and company levels on wages and working time in particular**

In Slovenia patterns of wage and working time bargaining are mainly influenced by the sector/firm economic situation, productivity levels, availability and use of company/sectoral-level derogations and statutory standards.

##### **Statutory minimum wage**

An important factor influencing both pay-related bargaining and wage levels is the existence of the **statutory minimum wage**. The statutory gross monthly minimum wage was €783.66 per month in 2013. According to Eurostat Minimum Wage Statistics, Slovenia belongs to the group of five member states (together with Portugal, Malta, Spain and Greece) with an intermediate level of minimum wages (€550 to €1,000 a month). In September 2011, 41,045 employees in Slovenia received the national minimum wage, representing 6.7% of all employees (Eurofound, 2013).

The increase in the minimum wage in the period from August 2009 to March 2010 was 18.6%; in the period from March 2010 to January 2011 it was 1.86%, and from January 2011 to January 2012 1.96%. According to the Development Report 2012 by the Institute of Macroeconomic Analysis and Development, the growth in wages in 2010 and 2011 was strongly affected by the economic crisis, the rise in the minimum wage, and the austerity measures in the public sector. Owing to the austerity measures in the public sector, the increase in the gross wage per employee in 2010 (nominal 3.9%) and 2011 (2.0%) was solely a consequence of growth in the private sector (Eurofound, 2013).

We did not detect any radical shift of the regulatory boundaries between statutory regulation, joint regulation by the social partners in terms of bargaining and unilateral decision making by management regarding wages. According to our data, the **statutory regulations regarding pay are generally respected**. That was confirmed by both the employers' and trade unions' representatives we talked to. There are, however, some breaches regarding contributions and holiday bonuses and isolated cases of disrespect of the statutory regulation that were dealt with by the Labour Inspectorate and attracted a lot of publicity. In companies in crisis there are also delays in payments and, as mentioned above, agreements on temporary pay reductions.

“God forbid to let the law go! The law is the only thing that protects a bit. If we let go collective agreements for sectors too ... we will have China in ten years’ time” (Trade union representative).

Smaller employers do use alternative ways to pay their workers – paying them a minimum wage and other wage parts of in forms that are less taxed – they pay for bonuses, medical exams, trips. There is also a grey zone of small and micro companies that are not reported or well documented.

Although it is not hard to understand employers’ opinions that a time of crisis is not a time for collective bargaining on wage rises, the existence of minimum pay legitimises the demands for wages to be set above the minimum defined by the law. More than 14,000 Slovenian steel and electronics workers at 102 companies took part in a strike organised by the Steel and Electronics Industries Union of Slovenia (SKEI) on 23 January 2013 after which all pay in the sector was set above the level of the national minimum wage.

A trade union representative reported that the threat of going on strike has always been the only effective argument in trade union bargaining over pay, in the absence of which employers do not agree on any rises. According to her, that does not depend on the economic situation: “... even when we had the best situation – in 2007, when it bloomed, when it was bursting, productivity growth was 15–20% ... even then, they were not prepared to give more than the rise in inflation”.

Some of our respondents argue that Slovenia needs a new pay model that is less complicated. Employers would like to have a pay system that equalises workers regardless of their working experience. A big bargaining issue is thus the seniority bonus that makes an older worker more than 15% more expensive for an employer than a younger one. Employers argue that this explains the more difficult employment prospects of the elderly.

One respondent mentioned the lack of financial discipline as a problem that causes delays or unpaid wages, as an employer who does not receive payments himself and “has to pay for the electricity, has to pay suppliers, ... thinks that is the easiest ... and he doesn’t pay wages, contributions”.

We heard about **many more derogations regarding working time**. We found evidence of differences between higher formal standards and informal practices regarding working time arrangements. The annual reports of the Labour Inspectorate also show that most irregularities found in companies are in relation to working time.

Employers’ representatives argued that the statutory regulation of working time is unrealistically high and uncompetitive as Slovenia is one of the few countries that has a

paid meal break during working time. According to them, that makes our statistics on working time and overtime incomparable with other countries. Another problem they see is that overtime work being paid at a higher rate imposes an additional burden on employers. Employers resolve this problem with 'time banks' that register overtime work that is partly paid, partly used in the form of sick or holiday leave. These arrangements are informal in nature and not negotiated between the social partners. The trade union representatives find them not only "illegal" but also an indicator of a 'moral crisis', a situation where in the absence of very strict and regular outside control, self-control of people who should be more responsible does not work well. Even workers themselves do not oppose violations of the rules regarding working time – according to the trade union respondents this is partly because they even do not know what the rules are and partly because better paid overtime work helps them to improve their otherwise low incomes.

"In order to earn more, people accept everything, working all the time ... many times the trade union also turns a blind eye" (Trade union representative).

Some respondents reported on employers denying workers the right to annual holiday leave, and contesting the rights to a paid meal break and travel expenses.

Our respondents confirmed the widespread **argument of employers about overregulation** as the reason for a violation of the rules. Employers argue that it would be better to have a system in which it is possible to comply with the rules than to fight for unrealistically set norms. Some norms and rules stipulated in the sectoral agreements are not implemented in practice.

"Trade unions are fighting for a system that is already overregulated. That system is not implemented. We know that it is not implemented!"  
(Employers' representative)

The reforms and crisis did deteriorate the outcomes of collective bargaining in terms of the **work-life balance, increasing differences between various groups of workers such as women and less protected groups, and firm flexibility**. One respondent held the opinion that we are only seeing just one part of the picture of the effects of the changes and the crisis by investigating what is going on with collective agreements because the really negative effects of the crisis are being felt by workers who are not covered by collective agreements. It is estimated that there are more than 100,000 of such workers, and this figure is rising.

"People who do not have that status, who are outside (collective agreements) are in a really unpleasant position. And there are ever more of them. In that way, employers amortise uncertainties – with people on fixed-term contracts or agency workers who

are not covered by collective agreements – they work according to Bulgarian or Romanian standards” (Employers’ representative).

Trade union representatives reported that employers generally do not want to talk about any topic concerning gender equality or the work-family balance: “That is certainly the biggest victim of the crisis ... the private part of life is affected ... especially for young people. Those few young people who do get jobs – they work all day long. The mentality is changing – what is considered normal and what is not ... things that were not normal several years ago ... because of the circumstances we are living in, pressures and changes in society have become normal” (Trade union representative).

On the contrary, there are cases of long debates on issues that should not be discussed as they are in conflict with the logic of the legislation. A trade union representative reported on recent collective bargaining where employers proposed use of the institute of suspension (that is used for workers when they are exercising a political mandate or similar) to not pay workers when they are on sick leave. That debate involved the Labour Inspectorate and the Institute for Work and it was only after receiving two independent expert opinions that this would be not ‘only unacceptable but also unconstitutional’ did employers withdraw the proposal.

It seems that the changes occurring during/because of the crisis have distributed different roles to trade unions at various levels – the big trade union centrals have gained a stronger role in representing the interests of workers (not only their members) at the national level, while smaller/company trade unions are helping managements find ways to overcome the crisis. Some of our respondents explicitly addressed **the difference between the radical stance and power of trade unions at the national level and their lower capacity to protect their members at the company level**. These estimations also indicate the employers’ expectations regarding the proper role and level of involvement of trade unions.

“...They (trade unions) are very aggressive and tough at the national level, but ... when there is a problem on a company level, ... when one does not get paid, when someone is harassed , they are invisible...I think that they are not well connected with their members ... there are plenty of officials in Ljubljana who seldom go to companies to protect people...” (Employers’ representative).

Some employers’ representatives indicated even more explicitly **the proper space for social dialogue**:

“We are dealing with state politics instead of the problems in companies ... that is why Mura and Gorenje happened. Gorenje was the biggest blow to the trade unions. But they just continued shamelessly with pushing the government and interfering in things that should not be their concern. Let’s be honest, and I am ... far from the neoliberals, to let someone interfere with the owner, with what the owner will sell or how he will manage

his property ... that is like as if I were to come to your home and ...” (Employers’ representative).

Our respondents also reported on variations among successful and less successful companies regarding **the capacity of management to implement change** and respond to the present economic situation. While many competent managers have used the crisis to strategically reconsider their companies’ business position and improve it through “rationalisation, professionalization and innovation, the crisis has revealed some incompetent managers” according to one HR manager. A respondent from an employers’ organisation stated that during the crisis the exports of Slovenian medium and large companies have doubled, while smaller companies are still too focused on the domestic market.

#### **4.6 Krka: Business success and exceptionally highly developed social dialogue at the company level**

Krka is one of the most successful Slovenian companies and a serious and respected international player in the pharmaceutical industry. An important part of Krka’s identity and public image is the high standard of social dialogue that is followed by a high quality working life, an exceptional organisational culture, the workers’ identification with the company, and the high reputation of the company’s management. Krka provides exceptional and almost disturbing proof of the compatibility of business success and workers’ well-being in a sector that has many difficulties overcoming the turbulent times of the crisis.

##### **A best practice case: Relations between the employees and management in Krka**

See the presentation at Krka’s website: <http://www.krka.si/sl/o-krki/druzbeno-odgovornost/skrb-za-zaposlene/odnosi-med-zaposlenimi-in-vodstvom/>

“The company has a **workers’ council and two representative trade unions** (KNG Krka Novo Mesto and the Trade Union of Krka). The workers’ council and the unions collaborate well.

The company’s collective agreement is mainly agreed, changed or amended by a tripartite system of coordination between the management, the company’s professional services and workers’ representatives (trade unions and the workers’ council). Irrespective of who initiates a proposal, all interested parties are active in its harmonisation in different ways and through various (written and oral) forms of communication until they reach a consensus. The workers’ council and the trade unions work together closely and in this way build a partnership in pursuit of the interests of workers.

In 2008, 15 **workers' assemblies** were organised within the company. All were well-organised and very well attended (2,120 workers). In 2008, the workers' director Danica Novak Malnar was reappointed for a new term. The **Worker Director** is a member of the Management Board who represents the interests of employees with regard to personnel and social issues.

The workers' council has 15 members. Members of the workers' council act as a link between employees and management, in terms of both transferring information and offering comments and suggestions. With the support of the Chairman and with the help of the company's professional services, the workers' council contributes to the good mutual relations and thus to Krka's good business performance.

Communication between the management, employees and workers' council takes place through different routes. All employees can communicate directly with the Chairman of the Board by e-mail, council members communicate with each other once a week, all employees can communicate with the president of the workers' council through an internal website ('Krkanet') and the workers' council may inform employees through that website."

Although according to our interviewees the crisis has hit the pharmaceutical industry as hard as others (forcing companies to merge, reduce workforce, or even close), since 2008 Krka's annual growth has been at least 5% annually. Our respondents estimated that this success is a result of a well-prepared and timely strategy to grow in Eastern markets.

Krka's representatives often do not publicise their successful performance and/or practices and somehow feel "as if they do not really fit into the rubber-chemical sector". Besides having 30% higher salaries than defined by the sector's collective agreement (the lowest net salary in Krka is €800 and the average net salary is above €1700), Krka has well-developed pay, incentives and promotion systems, education, training and talent development programmes, programmes for development and measurements of the satisfaction of workers, as well as policies for the better reconciliation of working and family/private life. When talking to Krka's representatives, one can see how such virtuous cycles make an excellent workplace ever better.

Part of the strong organisational culture is Krka being a Slovenian company, embedded in the local environment and taking care of it. Our respondents from Krka stressed this proudly and explained their business advantage over the second big pharmaceutical company in Slovenia with the fact that Krka "defines the politics, system, strategy here ... and the philosophy of foreign owners is different".

“Capitalism must have a limit. For me, the key question is whether management understands that we are not only serving capital. I am not idealistic. We also do have problems. But – we are fair!

(Representative of Krka’s management)

“I was raised by this company. I was 15 years old when I got a job as a worker. Then I got an education after two kids. I did not obey my parents as I obeyed this company. The company has given me a lot and I hope that it will give me more. I am doing my best to give the company as much as possible” (A pharmacist, a representative of Krka’s workers).

In many other companies in the sector the situation is completely different – “there is no social dialogue at all. It is as the management says” (Trade union representative).

The crisis has affected the employees in Krka in a way that it has “made people realise that not everything can be taken for granted; trade unions, at least ours, understand that”.

Our respondents also reported the greater acceptance of change on the side of workers during the crisis in other companies as well. In Krka as well as many other Slovenian companies there is a history of consensually accepted plans for resolving business problems that were used en masse in the early 1990s due to the break-up of Yugoslavia, i.e. the loss of the Yugoslav market.

#### **4.7 Rule-makers in the electro sector: From being hostages of Gorenje’s high standards to practices of paying for factory parking**

We found evidence of the diminishing role of sectoral rule-makers and changes with respect to the identity of rule-makers. In fact, the declining role of rule-makers in sectors is an indicator of the **decentralisation and fragmentation of the social dialogue** that was described by one of our respondents: “Our management is now mainly focused on our workers. They realised that their power chiefly depends on the trust of workers and not on how they influence Slovenian general public opinion ... I think we have closed in”.

“There are no general unified employer perspectives ... there is no longer any cohesiveness. In these times of crisis employers are focused on their own problems ... I do not feel the power of the sector any more ... the power of the sectorial interest association has declined somewhat ... even during bargaining ... the majority of employers’ representatives bargain for results that will benefit their own companies ... there is no common interest ... partial interests dominate. That is reducing standards” (Employers’ representative).

“Employers used to be a hostage of Gorenje as Gorenje had strong trade unions, strong social responsibility; the workers’ councils were strong; they set the standards that average and above-average companies used to reach without problems ... but Gorenje has 30,000–32,000 of added value and for companies with 20,000 or 22,000 – they had problems. When the trade unions felt that something was wrong, they just threatened with a strike in Gorenje and the pressure from Gorenje and its suppliers made all accept what was demanded ... today it is not like that anymore ... now one could even say to Gorenje to withdraw. The situation in the sector is so serious” (Employers’ representative).

The changed position of Gorenje among other companies in the sector reflects changes in the social dialogue within the company. Certain management business decisions as well as ownership changes provoked discontent among workers that culminated in a company strike in 2009. Gorenje has been hit by the global economic crisis due to its dependency on exports. Besides the low salaries, which have remained unchanged despite the subsidies approved by the government, the workers complained of non-paid overtime work. The workers’ monthly salary ranged between €280–400. That was the first time Gorenje workers had gone on strike since Slovenia attained its independence. The move was not supported by the company’s union. Workers blamed the union for maintaining too close ties with the company’s executives.

A representative of the trade unions described the situation in Gorenje in 2009 as some kind of paradox: “They seemed to be a company with a well-established social dialogue, but I think they went too far ... when the director and the trade union’s president agreed on something that was taken for granted, without any questioning, without any explanations”.

The president of the Association of Free Trade Unions of Slovenia tried to mediate the conflict between workers and the management. After a one-day strike, the workers’ representative, company trade union and company management agreed to increase the wages by 10%, and to pay cost-of-living allowances to workers with the lowest income (including workers ‘on hold’). The leadership of the company’s trade union changed and the social dialogue in Gorenje had to be re-established. They formed a group responsible for the social dialogue in the company and strengthened the communication and HR activities (quarterly workers’ assemblies to provide regular information, annual HR planning, annual interviews). After moving some of the production to Serbia that created additional tension among the workers, an agreement on ‘saving jobs until 2015’ was signed in the company. The management representative estimated that the crisis has served as a catalyst of a positive change regarding the social dialogue in Gorenje. He estimated that both sides have redefined their positions – the employer realised how important the workforce is for the survival of the company while the workers have realised that they cannot succeed without the success of the company.

Reaction of Mr. Lahovnik, the Minister for the Economy in 2009 regarding problems in Gorenje:

**"The problem is inadequate communication."**

Lahovnik pointed to inadequate communication as an important reason for the employees' dissatisfaction. "If the management made staff aware of the real situation, reveal all their income and all ownership links to the company, there would not be any escalation of the discontent", Lahovnik stated. He noted that the salaries of the management in Gorenje exceed the government's recommendations and, although Gorenje is not owned by the state and the recommendations are not obligatory, it would be appropriate to take them into account. He also noted that the Management Board would have to clarify all doubts regarding the ownership consolidation between INGOR owned by executives of Gorenje, some other companies and Gorenje. The minister added: "It is necessary to put the cards on the table. It is understandable that the employees in Gorenje feel that the results are unequally shared and it would be appropriate if leadership would tighten their belts more as the employees feel that they are the only ones saving". Lahovnik believes that the leadership should fix the problem of wages immediately, but consider long-term profit-sharing among the employees.

(17 September 2009, MMC RTV SLO/STA)

The situation in the Slovenian electro industry is tough and different strategies have been taken in companies to address the changes. Some of them are not built upon social dialogue principles. One of the more radical opponents of most of the social dialogue framework and existing labour legislation is Mr. Dušan Šešok, the owner and manager of the Iskra Group, part of what was once one of the biggest and most successful Slovenian companies. Known for his radical statements regarding the need to abolish the minimum wage and attempts to lower workers' salaries in Iskra, Mr. Šešok once again shocked with the decision to charge Iskra employees for parking in the factory yard (Troha, 2014).

**A new rule-maker in the Slovenian electro industry?**

**Šešok ignores the decision of the Labour Inspectorate**

Although the Labour Inspectorate decided that the Iskra should eradicate those annexes to employment contracts which have reduced 10% of the employees' wages, the executives with Dušan Šešok at the forefront obviously have no intention of doing that.

After the Iskra leadership required employees to give up part of their wages, the Labour Inspectorate decided to the contrary, namely that Iskra must respect the collective

agreement for the electro industry. This means that it should not interfere with the basic salary. But it is obvious that the Chairman of Iskra's Board, Dušan Šešok, who recently stated that an employee who does not sign the annexes is not good for the company, does not care about the decisions of the Inspectorate.

It is not clear from the latest proposal which Šešok gave to Iskra's workers' Council that the annexes will be abandoned. Instead of Iskra eliminating the annexes according to the instructions of the Labour Inspectorate, Šešok is, according to our information, urging those employees who have not signed the annexes yet to sign them "because of correctness and equalising the conditions for all workers". Such "correctness" would among other things result in a higher profit for the Iskra Group that is 90% owned by Šešok and the board member Jože Godec.

Source: Sebastian Morozov, 14 May 2014

Our trade union respondent reported to us that in June Mr Šešok agreed to abolish the controversial annexes. According to her, that was proof that a violation of workers' rights could be stopped or at least fixed if it has already occurred. But she stressed that workers have to report violations because only then can trade unions and the Labour Inspectorate react. The problem is that "There is no legal security in this country ... people do not believe in the legal system, in inspections ... there is a conviction that everybody violates the rules, and nothing happens...".

Some of our respondents mentioned the important role of bigger foreign companies entering Slovenia and setting new standards/organisational cultures and HR practices and thus (unintentionally) serving as rule-makers. Workers who are generally satisfied in these companies because of their secure employment and good wages do not even compare these new practices to the existing rules/legislation. Trade unions in these companies are mainly company trade unions that are collaborating well with the company's management.

Accordingly, our respondents reported some foreign owners who have changed companies' existing HR systems. Although some of the changes introduced are based on rules that reduce some previously/statutory existing protection/rights of workers, they were not opposed by the workers or the trade unions. On the contrary, the trade unions' attempts to oppose some of the new HR approaches were contested by the workers. An example of that is a system of bonuses and incentives introduced by the foreign owner of a company where the very low initial wages could be supplemented by bonuses for presence at work:

"..if someone is not on sick leave for a month s/he gets a €25 bonus, if no one in a team is on a sick leave for a month, each member of that team gets an additional €25 bonus ... people go to work ill just to get the bonus ... otherwise, they would probably crawl among themselves. This creates competition among people ... If they don't use their annual leave during summer they get €300 in gross income... If someone has not been

on sick leave for 20 years they get a paid vacation for two” (Trade union representative).

#### **4.8 General trends and possible scenarios regarding the operation of the IR system in Slovenia**

The labour market reforms, the crisis and the threat of change together with the dynamics and consequences of the post-socialist change (ownership changes, restructuring of the economy in the 1990s) and entering the EU have all influenced the system of collective bargaining and social dialogue in Slovenia.

In the processes of change there is evidence of **some continuity** (institutions, legislative framework) while the **logic, content and quality of the social dialogue are changing**.

The social dialogue that was seen as an important **component and facilitator of change** during the transitional period in Slovenia currently **does not perform that role**. Estimates of the strength of other partners vary among the social partners while they all see successful **social dialogue as needed but prevented by a lack of trust and too radical expectations of the other side** in the dialogue. Possible scenarios of future strategies and approaches to collective bargaining and social dialogue will be strongly influenced by the **economic circumstances and political changes**.

The infrastructure in terms of both the actors of social dialogue and the legal framework has not been importantly changed or weakened, but the recent developments reveal a push on the employers’ side towards greater **decentralisation** while the trade union side shows most of the strength (in terms of mobilisation and expertise) on the national and sectoral levels.

We found that the social dialogue and collective bargaining dynamics vary with regard to some factors that will be presented next.

**Differences between companies within the same sector and between sectors** – in successful companies the social dialogue is part of the good performance, while in troubled companies it is (if it exists) helping in finding solutions to overcome the crisis. It seems that trade unions in the private sector are still capable of protecting the basic rights of workers (statutory guaranteed pay, unfair dismissals) and being involved in negotiating the terms of company changes such as closures/privatisations that affect large groups of workers.

On the other hand, trade unions are less/not capable of preventing a worsening of the working conditions (self-exploitation of workers). This is connected to differences in the relative power of IR actors regarding **different issues/at different levels**. While trade unions are not strong enough to stop the precarious working conditions of an

increasing part of the workforce, to prevent the cancellation of sectoral agreements they use the power of mobilisation to protect some minimal standards that are currently part of the labour legislation (such as the minimum wage) at the national level. Employers are in a position where they can unilaterally cancel collective agreements and hold considerably more power at the company level so long as they do not interfere with the mentioned basic standards.

We found differences between **cooperative relations** on the company level (in both successful and some troubled companies) and more **conflictual** relations among social partners at the sector/national level.

We also found differences regarding the **type of ownership**, not regarding the source (foreign or domestic) but the nature (long-term- or short-term-oriented). Foreign capital does, however, change HRM and IR practices.

We established that there is the very **strong pressure of the ‘there is no alternative’ rhetoric** influencing the social partners.

As both the employer and trade union representatives see **the state as an important player** that sets the framework for social dialogue, great importance is attached to the position to be taken by the **new government** regarding the development strategy of Slovenia and whether it will continue with the uncritical acceptance of EU-enforced structural reforms (especially privatisation and greater flexibility in the labour market).

#### 4.9 On the crossroads after 20 years: Stalled social dialogue in Slovenia

“Everyone acknowledged that we need a social agreement, mainly as a framework for the necessary reforms, for achieving some trust. At the same time, there is a problem that the partners don’t trust each other. That is crucial – the lack of trust among the partners and the high level of conflict that arises from that. It is very hard to lead a constructive dialogue.”

Our research confirms earlier analysis that concluded that while industrial relations in Slovenia had not undergone any major changes in its formal structure (tripartite and bipartite negotiations, wage bargaining being part of collective agreements) and EU pacts (fiscal pact, six pack, EuroPlus Pact) which had not yet impacted Slovenia as far as wage-setting mechanisms or the abolition of wage indexation is concerned, the state of the social dialogue in Slovenia has deteriorated since the beginning of the crisis (Krašovec and Lužar, 2013). Authors mention increasing breaches of collective agreements by employers, increasing workers’ unrest and the number of strikes; a rise in unilateral and hasty government interventions in public sector working conditions

and the growing militancy of the trade unions. All of this has characterised industrial relations in Slovenia during the crisis. However, it is hard to say that these developments are exclusively the outcome of the crisis. We think that they are a result of the changed constellation of political and economic power – the main actors' interests and their relative power. While the post-socialist transition and EU integration were national development projects based on consensual and inclusive strategies that were naturally blended with an active social dialogue, the current political and economic reconfigurations are embedded supranationally and are not based on a consensus regarding the nature and pace of change. An indication of the lack of the strategic and developmental embeddedness of the social dialogue is seen in one of our respondents' evaluation of the work and role of the Economic Social Council: "They do not consider the interest of the state. Each of them is concerned for their own sector ... the crisis has placed a focus on local interests. I think that social dialogue in Slovenia has stalled a bit".

After 20 years of practice, both sides of the social dialogue are rethinking their identities and priorities. This rethinking is occurring in a context that is characterised by paradoxes. Trade unions that protect workers' basic rights to decent working conditions are seen (sometimes even by themselves) as culprits responsible for the position and increasing number of precarious workers. At the same time, the best Slovenian companies are still building their success on strong social dialogue.

While the best employers search for instruments of motivation and for obtaining a good workforce, some representatives of employers' organisations wishing to achieve a better competitive business position of Slovenian companies uncritically propose adjustments to foreign practices that would reduce existing standards. It is clear that proposals to dismantle well-established arrangements (like, for example, that of parental leave which is both internationally recognised as a model of good practice and has a long history and strong support in the Slovenian public) without thinking about the potential consequences (for the employment of women and quality of life) indicate a readiness to radically change the logic of the existing economic and social model.

Although all social partners still believe the new Social Agreement is needed, the fact that its conclusion has been constantly delayed may be seen as a salient sign of the actual fading of the perception that social dialogue is an important part of the developmental and strategic framework. Reactions of the trade unions and employers' organisations to the draft of the new social agreement ran in opposite directions – while the trade unions called for more social dialogue concerning all aspects of economic and social policy (especially in these times of crisis), employers' organisations pointed to the need to unburden employers by cutting the costs of the labour force, allowing greater flexibility and discretion to employers. Employers' estimations of the new labour legislation remaining too socialist, employers having not enough and trade unions too much power in industrial relations cannot be seen as being in favour of the new social agreement or the further development of social dialogue. Some of the employers' representatives in our field study explicitly expressed an unwillingness to sign the

proposed social agreement, criticising trade unions “who don’t understand one thing: the economy is in crisis and they are still demanding the same workers’ rights that they had before. We are determined – we will not sign the social agreement if it remains as it is currently proposed”.

The leaving minister for labour stated that “if the government had not resigned certain social agreements would have been achieved”. It has yet to be seen how high on the priority list the social agreement is for the new government. This relates to the question of whether the new government will have the drive, strength and political support to mobilise for change that will overcome the logic of the inevitability of an ever more flexible, insecure and competitive economic environment that is currently overwhelming Slovenia. The existing social dialogue infrastructure and tradition could be used as a starting point for the next strategic development step. However, it is also possible that the increasingly decentralised collective bargaining would in the future have a much narrower function, protecting ever fewer trade union members.

The possible social dialogue scenarios in terms of social and political actors’ strategies and approaches to collective bargaining and social dialogue will also depend greatly on the economic situation and strategy of the EU.

There is no evidence yet of how the changing economic circumstances (very recent and very weak signs of recovery) and the very recently changed domestic political environment are affecting developments in collective bargaining in the industries studied and related government action.

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