

# **IED on the basis for employee ownership and financial participation**

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The Institute for Economic Democracy (IED) drew attention to the differences in the proposals for regulating the area of employee ownership and financial participation. 'In various stages of coordination with the line ministries, there are two complementary legislative proposals that promote the development of the field, but they differ in purpose,' said IED director Tej Gonza.

The draft law on workers' ownership cooperatives, which is being prepared by the Ministries of Labour, Family, Social Affairs and Equal Opportunities and for a Solidary Future, foresees tax relief for owners who decide to sell the company to employees through the ESOP (Employee Stock Ownership Plan) model. It offers an effective solution for dealing with the wave of retirements in the small economy and for systemically rewarding and motivating employees, he summarized.

In the meantime, the Ministry of Economy, Tourism and Sports is preparing a bill on profit-sharing and employee option awards, which would amend the law on employee profit-sharing. 'The renovation would encourage the ESPP (Employee Stock Purchase Plan) model of financial participation in Slovenia, which is used abroad mainly in start-up and high-tech companies and offers favourable employee rewards and solves the problem of staff leaving,' he said. According to the IED, both proposals are important for solving various challenges in the Slovenian economy. However, for the needs of the development of the Slovenian economy, priority treatment of the first law is necessary, which directly addresses the big problem of ownership succession in the sector of small and medium-sized enterprises. 'This also provides a more long-term sustainable, inclusive and socially responsible form of ownership for employees,' Gonza said.

Among the advantages of the ESOP model, he listed providing a tool for solving the challenge of ownership succession in the sector of small and medium-sized companies in a socially responsible way, raising added value and strengthening stability in companies and the economy, the expected profits of the company are used to buy back shares, and that it is a very stable a form of insider ownership that establishes significant employee ownership.

The challenges of the ESOP model are that it is more complex, that the establishment requires a higher investment of time and money by companies. Success indicators in companies are significantly influenced in combination with appropriate employee training and the establishment of a transparent ownership culture. Experience from abroad shows that an appropriate legislative framework can effectively prevent possible abuses of the model when buying out an ownership stake through leverage.

Meanwhile, the advantages of the ESPP model are that it enables simple and flexible rewarding of employees with profits, shares of the company and stock options, and that with tax-advantaged rewarding of employees, it helps to increase their net employee benefits and helps to improve wage competitiveness in the economy.

The challenges are that it leads to differences between employees in the level of participation in company ownership, so that the employees themselves decide whether to invest the award in shares or shares or they will pay it out. This model does not promote sustainable forms of ownership, especially if it is not properly regulated. The model does not lead to significant changes for the entire employment, economy and society, it is rarely used in a small economy.

As assessed by the IED, Slovenia is facing a major demographic challenge that not only threatens the pension system, but also poses a challenge to the normal functioning of the economy, as more than a third of the owners of the small and medium-sized business sector are retiring. 'The law with the ESOP model would encourage purchases through the leverage of the ESOP and in this way offer Slovenian entrepreneurs a succession tool with long-term positive social and economic consequences,' they emphasized.

Research from abroad shows that ESOP ownership leads to higher motivation and belonging and lower turnover of employees, lower costs related to employee turnover, higher crisis resilience and effective stimulation of employee innovation. ESOP is suitable for startups, young and mature companies that want to unify the interests of employees and the company in the long term.

Due to unregulated legislation and tax burdens, many Slovenian companies co-owned by employees are currently facing challenges, which can be addressed by the Act on Workers' Ownership Cooperatives. One of the main challenges is maintaining employee ownership across generations of employees.

The IED presented the case of Etiketa, a printing house facing succession problems, and the case of Inea, the largest ESOP company in Slovenia and Europe. For the first, the ESOP law would enable a tax-favourable and systemic transition to a sustainable scheme of internal ownership, which would enable the company to defend itself against takeovers by tying ownership to each generation of employees. The other would allow more regulatory stability during the transition, a legal basis for financing the buyout and a clear tax treatment.

The legal framework would lower the cost of setting up an ESOP co-ownership for startup Hudlajf and provide more tax and legal certainty in the process. This law would provide the Domel company with a tax-advantaged way to consolidate shares from departing employees and transfer these shares to the hands of new employees, which would enable long-term stable employee ownership in the company, they stated.