



Weekly Briefing

**Slovenia Economy briefing:
Recent developments in Gorenje Group
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Summary

Gorenje Group is a Slovenian manufacturer of household appliances and an important European manufacturer in this sector. With a revenue of 1.307 billion euros (as of 2017) it is also one of key players in Slovenian economy and one of the few big systems that managed to survive both the 1990-s transition and the global economic crisis. The past decade it experience a stagnation and recently it has been having some turbulent dynamics between a group of shareholders on one side and the management board with the supervisory board on the other side. At the same time, the management also got into a serious conflict over the negotiations for the new collective agreement with the workers syndicate. Recently it seems that the main disagreements have calmed down, at least for few months.

History and background

Gorenje Company was established in 1950 as an assembly plant for agricultural machinery. Growing from 10 employees at the time to thousand times that number today, it also greatly developed its production. In 1958 they started to serially produce solid fuel stoves, which in 1961, during the opening-up policy period, they also started to sell abroad, first to Germany. During the same time, Gorenje was one of the first companies in Yugoslavia to employ industrial designers and became a leading brand in the whole federation. In the following decade it started merging with companies all over Yugoslavia, reaching over 20,000 workers in 1978. The separation of Slovenia from Yugoslavia in 1991 then presented a big challenge for Gorenje, who lost a great share of its markets in the former SFRY. Events in the beginning of the nineteen nineties had a strong effect on Gorenje's operations. It slowly started to consolidate its position both in Western Europe and in the markets of the new countries from the former Eastern bloc. The privatisation of the company ended in 1997 when it was transformed into a joint stock company. The state kept a

share in the company, which slowly decreased with each capital increase. Today the state share is represented by Pension Fund Management company Kapitalska družba, d. d., which is the biggest shareholder of Gorenje with 16.37% (as of February 2018). Panasonic is among the first three shareholders as well with 10.74%.

Gorenje Group today has over 11,000 employees and has production facilities in different European countries. Apart from Slovenia, it produces appliances also in Serbia and Czech Republic, while also having development centres in Sweden, Netherlands, Czech Republic and Slovenia. Its revenue in 2017 was at 1.307 billion Euros and the biggest part of this was generated in the markets of Germany, Russia, Netherlands, Central Europe, Southeastern Europe, Scandinavian countries, USA and Australia. Despite the 95% of its revenues coming from the global market, Gorenje is still very important for Slovenian economy as well, in the local scale (employment and social stability in its micro-region) and on the national scale (an important share in Slovenian exports, especially outside Europe).

Gorenje has two global brands: Gorenje in mid-range and Asko in premium range. It also produces under six local brands: Upo, Etna, Mora and Körting in budget range, Pelgrim in mid-range and Atag in premium range.

January attempt of changing the supervisory board

In early January a group of shareholders, led by the former management board member Philip Sluiter and former owner of Atag through a 5% shareholder Home Products Europe, demanded the resignation of the supervisory board president Marko Voljč, and vice-president Uroš Slavinec. The move was seen in media as an indirect attempt to also replace the president of the management board and CEO Franjo Bobinac. He was supported by Raiffeisenbank Austria, Splitska Banka and Unicredit. Support also came from the small Gorenje shareholders association GRVG.

The criticism that was presented as the main cause for the demand, were disappointing results of the company, having only 1.2 million yearly profit against the 1.3 billion revenue and having only paid the dividends three years out of the last ten. They expressed their first objections at the last year's shareholders meeting, where they also pointed out several other concerns. They claimed that Gorenje management was not successful in developing a safety cushion and is therefore too dependent on the fairly low interest rates at the moment, while even a small upward correction of interest rates could be a problem for their situation. The other aspect that the shareholders' group criticized, were the close personal ties between members of the management board and the supervisory board, which freed the former from strict control of their actions. The internal revision commission also pointed out at irregularities that occurred when Gorenje was sponsoring Russian football club Torpedo.

At the meeting, where 69.9% of the Gorenje Group capital was present, the result of the vote was very slim, the replacement of the two supervisory board members was supported by 44.7%, while 55% voted against. It is expected that a similar motion might be repeated at the next spring meeting of shareholders.

Conflict with the syndicate

Although the criticism of the company management has temporarily subsided, a response was expected by them to show that serious measures are being taken to improve the status of Gorenje Group. On one hand, a strategic investor is being sought for and a better profiling of the Group's businesses was agreed on, selling off several companies which were farthest from the home appliances sector (most notably Gorenje Surovine). On the other hand, the management started to find ways to tweak the labour expenses and attempted to re-negotiate the collective agreement with the worker's syndicate. On the management side, the main objection to the 1991 collective agreement was that it was outdated and presented a setback for Gorenje Group in the time of harsher competition. The proposed changes, especially cutting the number of paid leave

days was seen by the syndicate as a dangerous precedent for the gradual removal of other workers benefits. The cutting of the paid leave days was felt as especially problematic, since the average age of Gorenje worker is comparatively high, which is a challenge in this physically demanding type of production.

The disagreement between the two sides was followed by a one-sided cancellation of the collective agreement by the management board which provoked a series of protests, organized by the representative syndicate SKEI (Syndicate of the metal and electric industry). A general strike was scheduled for March 14, if the management board did not revoke the decision. After few weeks of insecure outcome, on March 9 the management board finally negotiated an agreement with the syndicate SKEI. They agreed to withdraw the cancellation of the collective agreement in order to prevent the strike of the workers. Both sides agreed that a new collective agreement to replace the current one will be negotiated by April 20 at the latest.

Conclusions

The results of Gorenje Group, the leading producer of home appliances in Slovenia in the past year (and in the last decade overall) have not been satisfying to the shareholders, who started to organize a move to change the management board of the company, which has so far been unsuccessful. This can become an issue again in the spring meeting of the shareholders, but might be prevented by successful measures taken by the current management, out of which the successful restructuring of Gorenje Group business model and the successful negotiation with workers' syndicate are the two most important points. Another solution, which is also due very shortly, might greatly change the functioning of the Gorenje Group, namely, the agreement with a strategic investor partner. In the following weeks the negotiations with several potential investors will probably be revealed (out of which Midea, Haier as home appliances manufacturers and TV manufacturers Hisense and Gree have been

unofficially mentioned) and this might change the internal relations within the group.