

THE PREPAREDNESS OF ENTERPRISES FOR THE EURO CHANGEOVER

THE RESULTS OF SURVEYS OF BUSINESS PEOPLE

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A key role in the transition to the euro will be played by the business sector. For Slovakia's adoption of the euro in 2009 to be successful, it is necessary to know not only about the opinions and expectations of business entities, but also about their preparedness for the euro changeover. Although the opinions of individual business people on the euro changeover may be found in the press, the most comprehensive picture of their views and preparedness can be acquired only through research conducted among them. The aim of this article is to analyse the information so far acquired from surveys of business people and to describe their preparedness and needs in regard to adoption of the euro in Slovakia.

Surveys in Slovakia

Despite the importance of knowing the situation among business people concerning the euro changeover, relatively few surveys have been conducted in Slovakia in this regard. What may be considered the most comprehensive survey on the views and preparedness of business for the euro changeover is that carried out among small and medium-sized enterprises (SMEs) by the National Bank of Slovakia in conjunction with the Statistical Office of the Slovak Republic. The NBS has also surveyed large enterprises in Slovakia.¹

Another survey of business people in Slovakia has been carried out by the Business Alliance of Slovakia (PAS) in cooperation with Trend², a weekly magazine. Prior to Slovakia's accession to the European Union, a partial survey on the euro changeover was done among business people and afterwards presented in the Biatic journal.³ The problem with these surveys is, however, that they use a small sample of respondents and therefore have low meaningfulness. That is why they are insufficiently significant as a means for assessing the real situation among business people and may be used only to outline how matters stand.

Surveys in EU countries

In regard to the euro changeover, a relatively adequate number of business surveys have been conducted in EU countries. It is paradoxical that the United Kingdom, which for the foreseeable future has no plans to adopt the euro, has been the scene of the most surveys.⁴ These surveys were, however, focused mainly on the estimation of euro changeover costs. The surveys conducted in actual euro area countries dealt with a wider group of issues related to the adoption of the euro.⁵ They were

done both before and after the changeover with the aim of evaluating the progress of the euro's introduction.⁶

The situation in Slovakia

Considering the current situation in regard to researching the opinions and preparedness of business in Slovakia, the surveys commissioned by the NBS provide the most appropriate starting point. The NBS has conducted two surveys, one among small and medium-sized enterprises and the other among large enterprises.

The survey of SMEs was carried out by the Statistical Office of the Slovak Republic (ŠÚ SR) at the request of the NBS. The surveyed businesses were selected from the Register of Business Entities, as updated in February 2006. Altogether 1,400 businesses were addressed with none employing more than 249 people. Between 25 March 2006 and 12 April 2006, the ŠÚ SR pollsters carried out standardized interviews with selected business people. They received 955 responses, meaning completed questionnaires (a return of 68.2%). The respondents included representatives of microenterprises and SMEs at the district level. Enterprises employing between 0 and 9 people were most represented group in the survey (75% of respondents), followed by enterprises with 10 to 49 employees (19.7%) and with 50 to 249 employees (5.2%). In the breakdown by industry, the most represented were wholesale and retail trade (33%), construction (12.8%) and manufacturing (11.1%). The industry struc-

¹ NBS (2006b).

² Krekáč, M. (2005).

³ Szovics, P., Morvayová, R. (2003).

⁴ Bannock Consulting (2001).

⁵ De Nederlandsche Bank (2001), Institut für Mittelstandforschung (1998).

⁶ Clemens R. et al. (2005).



ture of enterprises in the survey roughly corresponds to the industry structure of enterprises in Slovakia.

The second survey was carried out among large enterprises by the NBS itself. From the database of large enterprises (non-financial corporations), 180 businesses were selected at random and sent questionnaires by post. The questions sent to the large enterprises corresponded with those used in the survey of SMEs. Between 15 April 2006 and 20 May 2006, a total of 68 responses were received, which represents a return of 38%. Given the small number of large enterprises and the lower return of questionnaires the sample cannot be considered as representative at any more specific breakdown. Nevertheless, the results of this survey provide an interesting complement to the findings of the SME survey.

Table 1 Main benefits for businesses from the euro changeover
(in % of respondents)

	SMEs	Large enterprises
Elimination of transaction costs	42.5	81
Elimination of exchange rate risk	33.7	85
Reduction of administrative costs	20.9	34
Price transparency within the euro area	25.6	19
Simplification of business with partners in the euro area	28.2	24
Acquisition of new markets	15.8	0
No benefits or other benefits	11.9	1

* Each respondent was allowed to give up to three responses.

Enterprises employing between 250 and 499 people were the most represented group in the survey (41% of respondents); enterprises with 500 to 999 employees were represented by 24% and those with more than 1,000 employees by 35%. In the breakdown by industry, the most represented were manufacturing (53%) and transport (12%). The industry structure of enterprises in this survey does not correspond to the industry structure of enterprises in Slovakia to the extent that the survey of SMEs did.

Enterprises see the main benefits from the adoption of the euro to be in the elimination of transaction costs and exchange rate risk. Based on its own analyses, the NBS estimates that savings made by enterprises from these direct benefits will represent 0.22% of GDP per year.⁷ Enterprises attach less significance to the indirect benefits of the euro's adoption, such as the simplification of business in the euro area or the acquisition of new markets. According to the PAS survey, business people viewed the elimination of exchange rate risks to be the greatest advantage. As in the NBS surveys, they did not

⁷ The estimate of the savings in the business sector following the adoption of the euro is treated in greater detail in the NBS studies [6, 7].

consider indirect benefits to be particularly significant for their activities.

It is clear from the surveys that business perceives the adoption of the euro largely in terms of the factors that will directly affect business activities within a relatively short time after the changeover. Prominent among these factors are the cost savings, which enterprises are able to quantify and to perceive directly. Business people, however, do not at present fully appreciate the indirect effects of the euro changeover that are expected to appear afterwards over the long term. This relates mainly to foreign trade growth and the easing of access to euro area markets.

Table 2 Expected effect of the euro on foreign trade
(in % of respondents)

	New customers in the euro area		Increase in imports from the euro area	
	SMEs	Large enterprises	SMEs	Large enterprises
Yes	7.5	0	4.8	0
Rather yes	19.1	19	15.7	10
Rather no	18.2	40	14.8	46
No	31.0	41	37.3	43
No trade with the euro area	20.5	0	22.3	0
Don't know	3.8	0	5.2	1

From the question about business expectations for foreign trade growth following the euro's adoption, it can be seen that a large proportion of enterprises either do not engage in foreign trade or do not expect an increase in trade with euro area countries. The same results turned up with expectations for growth in turnover, exports and profits. These replies confirm the fact that enterprises do not fully appreciate the indirect benefits of the euro changeover, and therefore do not have great expectations in regard to these benefits.

Table 3 Effect of the euro changeover on turnover, exports and profits
(in % of respondents)

	Turnover		Exports		Profit	
	SMEs	Large enterprises	SMEs	Large enterprises	SMEs	Large enterprises
Rise of up to 5%	16.0	4	8.8	7	16.2	9
Rise of 6% to 10%	5.2	4	5.0	4	6.2	4
Rise of 11% to 20%	2.2	0	1.6	0	2.3	0
Rise of more than 20%	0.8	0	0.7	1	0.7	1
No change	44.5	87	63.5	81	42.0	76
Decline	15.1	4	1.8	0	18.0	9
Don't know	16.2	0	18.7	6	14.6	0

Nevertheless, indirect benefits of the euro should be considered as the most important for the development of



foreign trade, especially among SMEs. The euro will enable the removal of the "barriers" that have up to now kept SMEs focused only on the internal market. Often SMEs have decided not to engage in foreign trade owing to exchange rate volatility and the fact that they cannot afford to hedge against this volatility. Transaction costs in foreign trade have also played a role in this regard, as have administrative demands (bookkeeping, invoicing, cost calculations in foreign currency). From this view, the euro will remove barriers for SMEs and make it easier for them to engage in foreign trade. The SME segment's growth potential in foreign trade will lie mainly in border areas, especially after the euro has also been adopted by the V4 neighbours. Since the euro has a positive effect on the development of foreign trade, it should also provide for additional economic growth among enterprises, a fact that they still do not appreciate.

Table 4 Main drawbacks for businesses from the euro changeover (% of respondents)

	SMEs	Large enterprises
Increase in competition pressure	45.5	22
Increase in costs related to the euro changeover	57.4	54
Loss of markets	8.6	0
No drawbacks or other drawbacks	10.7	15

The aim of the survey was to identify business expectations not only for the benefits of the euro changeover, but also for drawbacks, in the sense of whether enterprises expect that the euro will pose a threat to their activities. Enterprises consider the greatest drawback to be costs related to the euro changeover. The surveys show that the transition to the euro will cost businesses approximately 0.1% to 0.3% of their turnover, depending on the size of the enterprise and industry. The cost-to-turnover ratio should be lower for large enterprises and higher for small and medium-sized enterprises and for businesses in the service sector. Based on the survey results, the total cost to the business sector is estimated at approximately 0.26% of GDP.⁸ For a majority of business people, the one-off currency transition costs rank as the main drawback of the euro. That said, howe-

ver, these costs are expected to be relatively low. It is interesting that enterprises are less concerned about their strategic direction; for example, they are not even so concerned about sharper competition or loss of markets following Slovakia's entry into the euro area.

As for the most important tasks related to the euro changeover, it can be seen as positive that business does not expect them to pose substantial problems. More than half of business people do not foresee problems with price-setting, the conversion of accounts, dual pricing, cash circulation, and information systems. It may be particularly positive that enterprises are not expecting significant problems with information systems, the conversion of which represents the biggest cost related to adopting the euro.

Table 5 Level of euro changeover costs (in % respondents)

	Total costs		Software modifications	
	SMEs	Large enterprises	SMEs	Large enterprises
Up to 0.1% of turnover	21.7	63	20.9	53
0.1-0.2% of turnover	12.6	16	12.0	21
0.2-0.3% of turnover	7.4	9	5.2	13
0.3-0.5% of turnover	4.6	3	4.2	1
0.5-0.7% of turnover	3.0	1	2.1	4
0.7-1% of turnover	3.0	1	2.6	1
1-2% of turnover	3.9	0	3.4	3
Over 2% of turnover	2.5	0	1.7	0
No additional costs expected	23.7	0	27.6	0
Don't know	17.6	6	20.4	3

Table 6 Expected problem areas (in % of respondents)

	Price-setting		Conversion of accounts		Dual pricing		Cash circulation		Information systems	
	SMEs	Large enterprises	SMEs	Large enterprises	SMEs	Large enterprises	SMEs	Large enterprises	SMEs	Large enterprises
Yes	11.6	7	9.3	12	9.8	9	9.4	6	7.2	9
Rather yes	23.4	9	21.8	28	21.8	22	17.8	6	18.6	29
Rather no	27.1	26	27.3	32	27.1	31	28.6	29	28.2	31
No	32.6	51	31.4	24	31.9	34	37.1	51	37.0	28
Don't know	5.4	6	10.2	4	9.5	4	7.2	7	9.1	3

The situation in the euro area

In euro area countries following the adoption of the euro, a survey of business people was carried out in order to study how they had coped with the changeover; the results it produced are very similar to those for Slovakia.⁹ The analysis showed that SMEs had experienced

⁸ The estimate of costs related to the adoption of the euro is treated in greater detail in the NBS studies (2006 [7]).

⁹ Clemens R. et al. (2005) – a survey conducted by the University of Trier and Competence Center E-Business at the request of the European Commission.



no serious problems with the transition to the euro. Among the problems that did arise, the most notable were negative reactions from customers to the adoption of the euro, the identification of fake euro banknotes, and problems related to euro conversions. For most enterprises, the euro changeover represented only a slight increase in costs and in personnel demands. One third of businesses said that they had not incurred any costs in this regard. It can be said that the costs and personnel demands increase with the size of the enterprise. Nevertheless, larger enterprises found it easier to accommodate the euro changeover and also to cope with the organizational aspect.

For a majority of SMEs in euro area countries, the transition to the euro did not involve problems in regard to conversion or rounding-up of prices. In a comparison of sectors, the largest problems arose in the trade sector. Final consumers proved relatively sensitive to prices that were incorrectly converted or substantially marked up, and SMEs therefore tried to be very careful when converting prices. Small and medium-sized businesses did not have major problems in setting new enticing prices and in psychological pricing (odd pricing). The survey showed that the bigger an enterprise is, the greater its flexibility in pricing policy. Medium-sized enterprises managed to modify prices for a wide range of products so that the reduction of the one product's price was offset by an increase in another's price, which altogether had a balancing effect. This flexibility declines, however, in proportion to how much smaller an enterprise is and the range of products it offers. According to the survey, dual pricing did not present any problems and indeed contributed to increasing price transparency. SMEs were likewise untroubled by the conversion to euros, partly because they had timely knowledge of the price conversion rules and were prepared for this event (especially the trade sector).

The need to precisely define the circulation requirements for the euro was made clear in the survey of SMEs in the euro area. For this purpose, businesses used special guides dealing specifically with this issue. For the period of dual pricing, SMEs decided to take on additional staff so as to shorten waiting periods for customers. In some countries, temporary measures were introduced in order to cope with any problems related to cash transactions. These measures differed from one country to another. To ensure the necessary volume of circulation euros, assistance was also required from the banks and security services responsible for the preparation of the money.

The problems that arose in the euro area were mainly logistical. The estimated storage capacity for the withdrawn national currency was shown to be insufficient. Some countries saw capacity restrictions on the

transportation of money owing to a shortage of personnel. There were also delays in recording cash transfers and withdrawals in accounts (sometimes as long as 2 months), which resulted in businesses making losses on interest.

Despite the isolated problems, the adoption of the euro in the euro area went off without serious problems and the changeover can be judged a success. Based on the survey, it may be said that business in Slovakia does not expect any particularly serious problems to arise, just as none arose in the euro area.

Organization of the euro changeover in enterprises

The extent of the work required to implement the euro changeover will be important in regard to minimizing the costs, as will the timeliness of such work. The initial preparation will depend on the scope and complexity of the changes which enterprises have to carry out. This will require each enterprise to have an individual range of tasks. Among the most important tasks for businesses will be the adaptation of information systems and accounting, preparation for dual pricing and dual circulation, and the possible training of employees.

Table 7 Expected start of preparatory work for the euro changeover (in % of respondents)

	SMEs	Large enterprises
Already commenced	2,9	7
During 2006	0,8	12
During 2007	10,0	18
In the first half of 2008	16,2	34
In the second half of 2008	30,2	19
No preparation expected	29,6	1
Don't know	10,3	9

Large enterprises will require more preparation time for the euro changeover, and this is why most such businesses, according to the survey, expect to commence the preparatory work before SMEs do. Most large enterprises do not expect to begin preparations before 2008. As happened in euro area countries, a majority of enterprises have decided not to begin preparations for the euro changeover until soon before the introduction of cash euros. It should be noted in this regard that enterprises in the euro area had a longer preparation period. Business people in Slovakia should not therefore underestimate the changeover preparations and should not put them off until the last moment.

The organizational provision for the euro changeover in euro area countries showed that the organizational measures of individual types dependent greatly on the size of the enterprise and on its available capacities and funds. In



medium-sized enterprises, the most frequent measure was to appoint an employee in charge of the transition to the euro; a majority of such businesses also produced a timetable for the work related to the transition as well as an approximate costing. The larger the enterprise, the more important it was to organize a working group for the euro changeover. This follows on from the possibilities that medium-sized enterprises have available to them. As regards small enterprises, the most common organizational measure in regard to the euro changeover was mutual coordination and agreement with business partners. The principal measure among microenterprises was the renewal of information technologies. In these businesses, a large part of the activities related to the euro changeover were performed by external sources (tax advisors, accountants, etc.).

For the adoption of the euro in the euro area, it was assumed that enterprises would take advantage of the opportunity to carry out organizational changes. As the results of the euro area survey show, enterprises did not take this opportunity and did not even use it to overhaul their IT systems. A majority of enterprises would proceed in the same way if the euro changeover was repeated.

Table 8 Need for preparation (in % of respondents)

	Preparation of a special plan		Appointing a group to handle the euro changeover	
	SMEs	Large enterprises	SMEs	Large enterprises
Yes	4.9	29	6.6	35
Rather yes	14.5	41	11.0	44
Rather no	24.1	16	17.9	9
No	38.5	6	51.8	6
Don't yet know	18.1	6	12.6	6

The information obtained from the survey in Slovakia confirms that the extent to which enterprises make preparations will depend mainly on their size and that the preparations will be very similar to those made in euro area countries. SMEs are not expected to work out special plans for the euro changeover, nor to appoint groups to handle the transition within the business. With large enterprises the situation is different. Since they have a more extensive framework of tasks, large enterprises count on the creation of special plans and the appointment of groups to see through the business's transition to the euro.

Table 9 Need for staff training in regard to the euro changeover (in % of respondents)

	SMEs	Large enterprises
Yes, internal training	17.6	66
Yes, external training	12.1	18
No	50.5	16
Don't yet know	19.9	0

An enterprise's need for staff training is also affected by its size. SMEs do not envisage such a need, considering their size and the extent of their preparations. The situation was similar with SMEs in euro area countries. By contrast, large enterprises expect to train their employees for the transition to the euro, and to do so mainly through internal training.

Information campaign

One of the most important activities for ensuring a smooth transition to the euro will be to provide businesses with sufficient information. The level of knowledge about the issues and the solutions will determine not only how quickly the preparatory work for the euro changeover is carried out in businesses, but also the actual costs involved. That is why it is necessary to conduct an effective information campaign among business people. Results show that the level of information on the euro changeover is better at large enterprises, which have more human resources at their disposal and are therefore able to cover a greater volume of tasks and problems. The information level among SMEs cannot be considered satisfactory. In this case, more than half of the business people do not have sufficient information on the euro changeover.

Table 10 Level of information on the euro changeover (in % of respondents)

	SMEs	Large enterprises
Sufficient	14.7	16
Rather sufficient	31.8	46
Rather insufficient	36.5	37
Insufficient	12.2	1
None	4.8	0

The level of information among business people also depends on the way in which information is acquired. As the survey shows, most information is obtained from the daily print media and the internet. SMEs and large enterprises differ in the other ways of obtaining information. Since large enterprises have more human resources at their disposal, they are able to obtain and evaluate information also from specialist publications, NBS materials, seminars, and training courses. As for SMEs, they restrict the acquisition of information to the most accessible sources which they can cover with their own resources.

In order to provide information as efficiently as possible, it is necessary to know not only the way in which business people acquire information about the euro, but also the method which they prefer. The survey makes clear that how information is acquired varies again according to the type of enterprises. SMEs are not addressing the wider aspects of the euro changeover. Since they do not



Table 11 How information about the euro changeover is obtained
(in % of respondents)

	SMEs	Large enterprises
Daily press	73.6	60
Specialist press	33.1	79
Internet	48.6	59
NBS publications	6.1	38
Slovak Government publications	3.8	3
Specialist and research publications	3.2	3
Tax advisor or accountant	6.6	31
Chamber of commerce	15.3	9
No form – does not consider this information to be important	3.8	3
	4.7	0

have at their disposal a large capacity of human resources, they lack the scope to examine more extensively the effects that the adoption of the euro will have on them. They prefer to obtain information directed only at a selected group of issues which concerns them directly. When acquiring information, they prefer ways which are not time-consuming, and which are comprehensible, easily available, and focused on their needs. They opt mainly for the internet, daily press, specialist press, leaflets and brochures. It is therefore clear that in regard to this target group the focus needs to be more on leaflets, brochures, NBS publications, and on organizing training courses and seminars. Experience from the euro area indicates that SMEs should, through specific and relevant guides, be informed about the operational measures they are expected to carry out vis-_-vis the euro changeover. Communication between SMEs about how to address certain issues of the transition to the euro should be strengthened. At the same time, business associations and regional organizations for the support of SMEs should step up their information activity in regard to the euro changeover.

Large enterprises prefer to obtain information which is not only relevant to their needs, but which has a broader focus concerning the euro changeover. They opt mainly for the internet, specialist press, NBS publications, and specialist seminars and training.

As regards the information campaign in euro area countries, several levels and methods of information provision were selected for enterprises, and from this was derived its effectiveness. Information for business people was provided at the national level, local level, and through expert associations. At the Europe-wide and national level, there was provision of information materials dealing with strategic questions and issues of the transition to the euro. At the local level and through expert associations, the provided information had an operational character and addressed individual, specific problems of SMEs. The timing of the information provision was also important. In the initial stage, it was important to provide strategic infor-

Table 12 Preferred way to obtain information about the euro changeover
(in % of respondents)

	SMEs	Large enterprises
Daily press	43.0	29
Specialist press	32.1	50
Internet	50.3	84
NBS publications	18.3	49
Leaflets and brochures	30.7	10
Slovak Government publications	10.7	4
Specialist and research publications	8.0	4
Seminars and training	17.4	40
Tax advisor or accountant	13.9	9
Chamber of commerce	5.2	0
No form – does not consider this information to be important	2.2	0

mation, while in the stage just prior to the euro changeover, SMEs required specific information concerning specific problems. Through the survey, it was established that SMEs most often gave priority to information in the form of newspaper articles, specialist contributions, and personal consultancy. The holding of specialist seminars and information events did not prove effective in practice. Business people showed the least interest in telephone consultancy and interactive CD ROMs. They used the internet for information only to a certain extent. Rural-based SMEs and older citizens did not use this method. As for particular methods selected for the acquisition of information, the choice depended on the size of the business.

Conclusion

From the survey of business people in Slovakia, it is clear that they see the euro changeover in positive terms. The adoption of the euro is expected to bring mainly direct benefits that should result in lower costs. At present, however, business still underestimates the indirect benefits of the euro changeover. It can be seen as positive that business people do not view the euro as a threat to their activities. They consider the biggest drawback of the euro changeover to be the one-off costs. As was the case in the euro area, business in Slovakia does not envisage particularly serious technical or organizational problems to arise during the transition to the euro. For the transition to be smooth, however, there will have to be a more effective information campaign, conducted mainly through suitable distribution channels selected for business people.

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