

# The Preparations of Companies for an Entry of Slovakia into the Euro Zone

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**Abstract** The ways and means used by a company in the accommodation of its activities to the operation in euros are various. In general, large companies are able to cope with problems of the transition to the euro earlier than small- and medium-size companies.

**Keywords** – euro zone, large companies, small and medium size enterprises, preparation of companies, regulations for the accounting, regulations of the IT

## I. Introduction

During the preparations for an introduction of euro small- and medium-sized companies should employ all available information sources. Within the transition to euro the main steps of each country are stipulated in **the national plan of an introduction of euro** which is usually accepted and regularly updated by a government. The plan contains instructions for all economic branches, defines a presupposed schedule of the transition to euro and gives the information about respective legal, tax and accounting rules.

In the framework of the own national communication strategy aimed at euro the member countries which have been preparing for the acceptance of euro ensure a wide range of information materials (booklets, leaflets, etc.) and activities (including seminars, conferences, exhibitions, television and broadcasting spots). In addition to these public information sources the small- and medium-sized companies have at their disposal also the information provided by commercial associations, info-centres offering the information about euro, by commercial chambers, banks, accountants, commercial advisors, etc. Their information is included in specialized websites, controlling lists for entrepreneurs, circular letters and publications for a particular counseling according to the necessity of individual companies. Bigger companies can offer the necessary help to their subcontractors to make the transition to euro easier.

## II. Regulations for the accounting and financial management

For a transfer of the last transactional data to the financial reporting (such as are items constituting the accounting balances of creditors and debtors, old acquisition costs for individual items in the inventory, etc.) some intrastate rules or recommendations can exist. As for the preparation of a budget for the year in which euro is to be introduced the companies should elaborate all their plans directly in euros. Also, it will be necessary to decide on the time schedule of the plan for a transfer of old budgetary data to the data in euros and, at the same time, to decide on the access to the transfer. The intrastate legal instructions will determine the day from which, or the period during which must be submitted statements of a taxable income and respective data (e.g. concerned with the income tax of legal entities, value added tax, employee earnings, social insurance payments of employees) as well as a balance of the books submitted in euros. The rules about the conversion of fixed assets and shares of the corporation are usually defined in intrastate legal instructions. In order to ensure a quick adjustment of statutes of the corporation in connection with euro the companies should ascertain the possibilities which are regulated within the intrastate bounds of the law and, if necessary, which should ensure their legal consultancy as early as possible. For the sake of maintaining the transparency it is possible to require, for example, the rounding of the value of fixed assets and shares in the intrastate legal rules. Since the application of the exchange rate and rules of the conversion to fixed assets of the corporation and to its shares denominated in the national currency will lead in most cases to the non-rounded sums in euros, it can be allowed to start to increase (or decrease) the fixed assets of the corporation with the aim to achieve rounded sums.

It is necessary to revise the statutes and intrastate instructions of the corporation and to draw attention to the fact that, for example, some threshold sums, which must be adjusted, can occur in the national currency (when the intervention of the supervisory organs or committees is initiated). The new corporations established in the year before the day of the introduction of euro should indicate their fixed assets directly in euros – if it is permitted in the intrastate legal instructions – to prevent the necessity of the repeated conversion of fixed assets. For reasons of the introduction of euro shareholders should receive the information about every change in their property (for example, about the number of shares, their nominal value, paid up capital, distribution of the profit) as early as possible.

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### III. Regulations of the systems of information technologies

The introduction of euro has an influence on all systems of information technologies (IT systems) operating with currency units, for example, such as invoicing systems, wage systems, management information systems and the systems of numbering, the purchase of software, applications for a control of supplies as well as the systems for processing of the financial information such as cashboxes and other payment terminals in salable sites. The early accommodation of such systems to the new currency can represent the time-consuming operation. If there exist more IT applications, the preparations should be made beforehand. The small- and medium-sized companies should start to create the inventory of IT systems which will be affected by the transition to euro. In addition, the hardware should be determined, and if required, adjusted to a higher version, or it should be exchanged (for example, keyboards, printers, cashboxes, vending machines).

One of the strategic decisions which must be accepted in the preparation of the regulation of IT systems in the small- and medium-sized companies is to consider whether the regulation associated with euro should be a part of the major IT project that would be realized irrespective of the introduction of euro. Such a combination can be suitable in connection with the minimization of costs.

The demanded regulations of IT systems associated with euro will incorporate the processing of two currencies (the national currency and euro) in order that they could cope with requirements for the dual depicting of prices, realize the conversion of the national currency to euro in accordance with conversion rules, and indicate the higher number of decimal places. If IT systems of the company are interconnected with the IT systems of business partners, suppliers, etc., it will be necessary to ensure their compatibility also after the introduction of euro.

In dependence on the capacity of the existing IT systems these ones can be changed, modified to a higher version or extended, or they can be exchanged for other systems that will comply with all requirements. This means that each new software being acquired by the small- and medium-sized companies in the preparation process for an introduction of euro should already be compatible with it to precede the necessity of later regulations.

If the correct functioning of all information systems is to be ensured in the environment of euro since the day of its introduction all applications which passed through the regulation should be thoroughly and repeatedly tested to prevent some shortcomings and perform necessary corrections before the start of the systems. Also, before the final conversion of the old versions of sets and data to euro it is convenient for companies to make their copies and thus ensure their accessibility in the case of necessity.

### IV. Information about ready money

One of the most important steps at the preparation stage is to ensure the smooth transition of all cash operations. This applies mainly to the companies with a high cash turnover in their relation to customers. A significant task in the collection and withdrawal of bank notes and coins in the national

currency in the period of the dual circulation of money is attributed to a retail sector and a bank sector, respectively.

It is necessary to count on the situation that according to estimations the need of ready money in euros will be in this period in the retail trade three- to five times higher than under "normal" circumstances. The argument is that it will be impossible to use the ready money in the national currency accepted from customers for a repayment and that the customers will use the cash payment in the national currency to a larger extent than usually with an intent to get rid of that currency and not to be dependent on its exchange for euros in banks. The particulars about operations concerned with a pre-supply of the companies by euros will be indicated in agreements between the small- and medium-sized companies and their banks in which the date of charging the ready money from the company's pre-supply by euros to the account of the small- and medium-sized companies will be defined together with the requirements for a security.

However, neither logistic and security aspects of the pre-supply of companies by the ready money in euros nor the aspects of handling with the ready money in euros in the national currency should be underestimated and neglected during several weeks before the day of the introduction of euro, especially in the period of a dual circulation. To ensure the smooth course of this process the respective measures must be planned thoroughly and in time. For example, companies should verify whether they have at disposal the sufficient storage areas for an increased volume of the cash money. It is also necessary to verify transport capacities for the cash money in the national currency received from customers whether they could be carried away to banks. Furthermore, it is necessary to ensure for employees, particularly for cash-keepers handling with the cash money in relation to customers the professional preparation aimed at the appearance and protective elements of euro notes and coins.

### V. Informativeness and the professional preparation of employees

The professional preparation should be adapted individually to the needs of every targeted group. The special professional preparation should be ensured, for example, for employees having a direct contact with customers and handling with the cash money and work at the accounting or IT department. The next requirement is to obtain from employees the feedback which would help an efficiency of the professional preparation to be evaluated. The stress should be laid also on the importance of a dialogue between executive workers and a personnel. An experience gained from the last conversions into euro has shown that especially in the first days after the introduction of euro the relatively high risk of mistakes occurred on handling with the ready money in euros in the sphere of undertaking, where the cash money are intensely employed.

The constructive solution can be to involve employees, and in the case of major companies to involve also the representatives of industrial branches in the discussion about the influence of the introduction of euro on wages. To acquaint employees with the new currency it is recommended to indicate sums on the wage slips in both euros and the national currency immediately after establishing the conversion rate. Besides that one should not forget the

question of rounding the wages. In an effort to get rid of some inaccuracies it is also recommended to round only the total sum and not individual items constituting a part of the wage, i.e. the income tax, national insurance contributions, social benefits, etc.

## VI. Precautions taken in connection with the transition to euro

A choice of precautions taken in connection with the transition to euro in the entrepreneurial sphere depends on many factors, i.e. on the object of the activity, size of the company, applied IT systems, etc. In accordance with this, the most convenient approach must be chosen by every subject. However, it is important for all to adhere to the letter of the law. In this connection legal persons and entrepreneurs are obliged to prepare and realize certain precautions, rules and procedures used in the performance of their activity for ensuring the continuous transition to euro.

*The recommended steps in firms include especially:*

- appointment of competent persons or working groups responsible for the introduction of euro,
- definition of the schedule of tasks,
- audit of activities related to the transition to euro,
- audit of IT systems,
- changes and regulations of IT systems,
- trainings of employees,
- preparation of changes in the cashless payment contact,
- preparation of changes in the accounting and financial reporting,
- preparation and realization of the dual depicting, conversion of the fixed assets into shares of the property.

## VII. Advantages and disadvantages of the entry into the euro-zone

The answers of prognosticators and analysts to the question of advantages or disadvantages of the introduction of euro from the 1<sup>st</sup> of January, 2009 is not so unambiguous. The process of the introduction of euro is already in progress and it will be hardly stopped. However, it was not sure whether the European Council will slow down this process or will allow its termination on the 8<sup>th</sup> of July, 2008 with the aim to introduce euro on the expected date. According to the research of the GFK Agency for a daily newspaper "Hospodárske noviny" (Economic newspaper) the introduction of euro as a payable currency, which will be valid from the next year in the Slovak Republic, is expected by as much as 90.3 % of inhabitants and only by 9.3 % of people who do not believe it. The Institute for economic and social reforms, INEKO, which investigates the opinions of specialists on the acceptance of euro, indicates the 80 % probability of its admittance on the 1<sup>st</sup> January, 2009. Therefore it is interesting to examine the contributions of euro or to analyze the risks which can be caused by the introduction process itself.

The certain direct contribution will be a decrease of transactional costs in the foreign trade and investments, or their removal in the euro-zone country. This advantage will be a relatively positive contribution to small- and medium-sized

firms and less positive to bigger firms. The next benefit will be the removal of the part of a risk concerned with the rate of exchange of the Slovak crown versus euro – the smaller influence will be perceived by bigger corporations and the greater influence will be perceived by small- and medium-sized firms. From the aspect of the foreign trade the present advantage for importers will be eliminated and so will the disadvantage for exporters. The reduction of the exchange-rate instability will be perceived by small and big firms approximately equally. A decrease of the costs for an acquisition of the capital and a growth of the foreign trade will show themselves in smaller firms, however, a growth of the foreign investments is expected in bigger firms. It is estimated that since the introduction of the common currency the business has risen in the euro-zone as much as by 4 to 10 % and the goods business with countries outside the euro-zone approximately by 3 %.

The most remarkable disadvantage for entrepreneurial subjects with a currency conversion will be the existence of incidental technical and organizational costs. Their share in the yearly turnover is assumed to be from 0.07 % in corporations with 1000 and more employees to 0.29 % in small firms with 1 to 49 employees. From a long-term aspect the higher measure of inflation appears to be the potential disadvantage. This is evident also from the present growth of inflation in the euro-zone. The inflation in countries using euro is higher than expected by analysts. Considering the statement of the statistical office of the European Union, Eurostat, the inflation in the euro-zone achieved in January 3.7 %, which is the highest amount since January 1997.

## VIII. Conclusion

The entry of Slovakia into the euro-zone assumes some contributions to the state and consequently to inhabitants and the business sphere. The low and stable inflation means that the government will borrow cheaper. Lower interest rates will release the financial means which can be used for a decrease of taxes or for the building of the infrastructure.

The conversions suggest that the introduction of euro should bring more advantages than disadvantages. However, it is to the detriment of Slovakia that other V4 countries have not decided to accept euro yet.

The size and stability of the euro-zone strengthens the resistance of the country to economic blows such as the unexpected growth of prices for energies or other oscillations in the global exchange markets. The common currency makes the movement of the investment capital in the euro-zone simpler. The euro is after the American dollar the second most important world currency which is increasingly used in the international trade. This fact stabilizes the position of the European Union in the world.

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