

**The Impact of EMU Membership and Euro Currency on Business –
Experiences of Finnish Firms**
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Abstract

Membership of a country in the Economic and Monetary Union (EMU) was expected to bring considerable changes in the operating premises of firms. This study takes a look at the impact of a country's EMU membership and the consequent adoption of a new currency on her firms and their business, using Finland as a case country. In a survey, a sample of 201 Finnish firms responded giving their views of the changes, benefits and challenges. The overall conclusion from the study is that changes have been very much as expected before 1999; firms seem to have experienced more benefits than problems due to their country joining the EMU. The changes have been rather operational, suggesting that the strategic opportunities or threats would materialize more slowly than expected in earlier research. However, the study suggests that particularly SME firms in countries that plan to become EMU members would benefit from an early, proactive preparation for the change – even if that means considerable investments in terms of managerial time.

Key words: EMU, euro, firm experiences, Finland

Introduction

Becoming a member in the Economic and Monetary Union (EMU) has consequences in the operating environment of firms. Finland joined the European Union in the beginning of 1995 and the experiences of firms from the Finnish membership have been primarily positive (Seristö 1999). Question arose after 1999 whether the Finnish companies were prepared for the EMU membership and euro currency, and what were the impacts of those changes to the businesses in this small and open economy. This study takes a look at the impact of a country's new membership in the Economic and Monetary Union and the consequent adoption of a new currency on her firms and their business, using Finland as a case country.

Europe is very important to the Finnish economy and the Finnish firms. The share of exports into the EU has been above 50 per cent during the last years. On the imports side, the share of EU imports of all imports into Finland has been around 60 per cent. Foreign investments from Finland have been targeted mainly into the EU countries and former EFTA countries. In the 1990s some 60 per cent of foreign investments were made into the EU-15 area. In the mid-1990s there were more than 3000 Finnish subsidiaries in Western Europe.

The impacts of the EMU and the euro currency have been studied widely, but mainly on the national economy level only, and there are only a limited number of studies concerning firm-level experiences. This study makes an attempt to add to the scarce body of knowledge on the firm level. It builds on an earlier study (Seristö 1999) made among Finnish firms concerning their experiences from the Finnish membership in the European Union. The study sets out to address the following question:

How is EMU membership and the common currency euro experienced in Finnish firms?

Here, for example, the effects of EMU and euro on various functions of firms are assessed. From these issues this study moves on to address the following question of a more general nature:

What are the major changes in the operating environment for firms when their home country becomes a member in a major economic and monetary bloc such as the EMU?

Further, this study will take a look at issues of a more applied nature, such as:

What can firms in countries aspiring to become members in the EMU learn from the Finnish firms' experiences?

The objective of the study is to determine the key areas of change affecting firm operations when a firm's home country joins an economic and monetary union. In addition, this study will give suggestions to firms on how to prepare for the economic integration.

Past research relevant to the topic

Impacts of the EMU and the euro currency have been studied widely from the economics or national economy perspective. For instance, Andersen et al. (1995) studied the implications of EMU membership on small countries. Most of that research is not very relevant for this study, other than in providing a broader background for understanding the phenomenon. Therefore research from that perspective is not introduced, but rather the very recent research relevant for this firm- and industry-level study is here briefly presented.

Glick and Rose (2002) have studied whether a currency union affects trade. They posed a question if leaving a currency union would reduce international trade and sought for the answer using a large annual panel data set covering 217 countries from 1948 through 1997. During this sample a large number of countries left currency unions; they experienced economically and statistically significant declines in bilateral trade, after accounting for other factors. Assuming symmetry, they estimated that a pair of countries that starts to use a common currency experiences a near doubling in bilateral trade. Thom and Walsh (2002) studied also the effect of a currency union on trade, using the Irish experience as an example. They analysed the introduction of an exchange rate between Ireland and the UK in 1979 to shed light on the effects of a common currency on the composition of international trade. They found no evidence that the change of exchange rate regime had a significant effect on Anglo-Irish trade. This finding is consistent with previous studies of currency unions between larger, developed countries but conflicts with findings based on more heterogeneous country groupings, such as Glick and Rose study above.

Closer to being relevant to firms in a concrete fashion, Kenen (2002) studied the role of euro in the world currency markets and predicted a growing role for the euro in the monetary and currency regimes of countries that will soon join the EU, but found no reason to believe that the euro will displace the dollar as the main international currency.

Hartmann and Issing (2002) have also discussed the factors determining the international use of the euro, the relation of it with the ECB monetary policy and the overall use of the euro in the international monetary system.

Moving on the level between national economies and businesses, Whyman (2002) studied the impacts of the EMU upon world business; this study presents thoroughly past research on the topic, covering very well research in the 1990s. According to the study the impact upon the European business environment includes potential benefits of a low inflation, low interest rate zone, contrasted with problems of incomplete prior convergence and a deflationary bias at the heart of the EMU model. 'Micro' consequences include intensified competitive pressures, completion of the single market and industrial restructuring, tensions in labour relations between supra-national corporatism and decentralised flexibilisation, the impact of Foreign Direct Investment (FDI), together with estimated cost of transition. The study concluded by warning businesses that inaction will increase vulnerability, whilst preparedness would maximise potential gains.

Verdin and Van Heck (1999) studied the strategic questions surrounding the euro from a corporate perspective. They addressed whether the euro really is strategic and in what way, as opposed to being just an operational factor. In relation to the introduction of euro, they posed three main strategic questions: 1. What does the nature and structure of our industry look like and what forces are at hand to change it? Particularly, what pressures for market convergence do we see in our industry and competitive landscape in the European scene? 2. What new opportunities for (or threats to) value creation and value capturing will arise at the company level? Particularly, what opportunities for increased efficiency and cross-border segmentation can be expected in the 'Euroland'? 3. How will the basis and sustainability of our competitive advantage vis-à-vis our competitors change in the Eurozone? What is the differential effect of the Euro on different types of players in our industry? Related to the theme, Johansson (2000) has studied the impacts of euro on the European competitiveness, concluding that euro will make Europe a more competitive market.

Concerning the euro in particular, von Eije and Westerman (2002) studied the multinational cash management and conglomerate discounts in the euro zone, suggesting that the developments in the euro zone reduce financial market imperfections in transferring cash and diminish the need for separate local cash holdings. This would then facilitate the centralisation of cash management and headquarters' financial control. Also, the increased financial power of multinational headquarters, moreover, would offer opportunities for disintermediation. By exploiting these options multinationals in the euro zone can start to reap additional benefits of internal financing and conglomerate discounts of euro zone multinationals may diminish.

Van Everdingen and Bamossy (2000) developed and tested a conceptual adoption model identifying the various sets of factors that influence the adoption of the euro for commercial purposes. These factors fit into four broad categories: the perceived innovation characteristics, perceptions of the political and business environment, organizational characteristics, and internal communication behavior. A series of logit analysis on these factors was carried out based on survey data collected from a sample of 214 firms across five European countries. The survey results showed that tangible advantages, such as task simplification and degree of network externalities increased the likelihood of euro adoption prior to the mandatory 1999 date, as do strong positive signals within a company from

Chief Financial Officers and top management. Concerns about the costs of switching over to the *Euro* and negative perceptions regarding the political turmoil on the road to EMU significantly reduced the likelihood of using the Euro. Both the quantitative survey data and the qualitative interview data suggested a degree of ambivalence on the part of European managers regarding the use of the euro prior to the upcoming mandatory adoption date of 1999.

Concerning attitudes in general - and on an individual level - to the new currency in Europe, Pepermans and Verleye (1998) studied the national differences in attitudes towards the euro in 15 EU countries. Meier and Kirchler (1998) studied the attitudes, economic expectations and social representations of the euro in Austria, in particular. On the basis of individuals' attitudes towards the euro, the total sample was divided into five sub-samples of (a) strong opponents of the euro, (b) moderate opponents, (c) neutral or indifferent respondents, (d) moderate supporters, and (e) strong supporters. It was found that opponents associated mainly negative feelings with the euro, thinking of currency instability and financial losses in conjunction with it. Supporters, on the other hand, most frequently mentioned the facilitation of tourism and trading opportunities. Comparability of prices and incomes across Europe and the stimulation of the national economy were other frequently mentioned positive consequences. Kokkinaki (1998) studied the attitudes towards EMU in Greece, and concluded that Greeks were fairly supportive of the monetary union and are quite optimistic about its consequences. The anticipated outcomes of EMU for Greece and for Europe were found to be significant determinants of attitudes. In addition, attitudes were determined by the strength of national identity and by the more general attitudes towards the membership of Greece in the European Union.

Studies on the impacts of EMU and euro on the labour markets are relevant for company cost considerations; for instance Borghijs and van Poeck (2000) have addressed this question. This is related to the social protection competition in the EMU area, studied e.g. by Meeusen and Rayp (2000). Also related to the studies on an individual level, Abraham et al. (2000) have studied the challenges that the wage setting in Europe will face after the EMU and euro.

In terms of industry specific studies, Canals (1999) studied the strategic effects of the euro on banks. In particular, it explored two questions: the rationale behind mergers and acquisitions and the universal banking model. The strategic analysis of the forces for change in banking suggested that scale will not be the key success factor in European banking, the euro will increase the role of financial specialists in Europe and the universal banking model will face numerous challenges in the new context. Also Degryse et al. (2000) have studied from the industrial organization perspective the impact of EMU on banking in Europe. Rees and Kessner (1998) analysed the European currency union from the insurance industry perspective. The authors outline three scenarios for the euro and the industry, and suggested a scenario where the performance of the euro in respect of inflation is close to the European average over the past decade. The study also suggested that the insurance industry should not follow the lead of the politicians in trying to persuade the public that the very favourable scenario will occur with probability one, because this would damage its credibility. Instead, the insurance industry should seek to convince investors that even in the less than ideal scenario their expectations concerning real rates of return would be met.

One particularly interesting aspect of firms' operations in an integrated economic and monetary area is that of investment behaviour. De Viljder et al. (2000) have suggested that

the effects of euro on the investment behaviour of firms will be substantial. A question arises whether firms will change their targets of direct investment after their home country has joined an integrated economic area, and whether firms will invest more inside or outside the integrated area. Further, it would be interesting to know to what extent firms' investment moves are driven, firstly, by market factors and, secondly, by production cost factors. In other words it is worth studying whether the investment motivations in the changed economic environment are either horizontal or vertical, or perhaps both. Earlier studies have pointed to determinants of investments such as relative market size, trade barriers, exchange rate movements, trade intensity between the two countries, costs of production and profitability of firms in the host country, and the intensity of R&D in the host country. (Culem 1988, Kinnunen 1993, Lunn 1980, Morsink & Molle 1991, Scaperlanda & Mauer 1969). Bajo-Rubio and Sosvilla-Rivero (1994) found that Spain's joining in the EC in 1986 partly explained the increased Spanish FDIs into the EC; the authors suggested that the main driver of increased investments would be the expectations of a larger market for the Spanish companies.

Erkkilä (1997) studied the determining factors of Finnish outward investment flows into 14 European countries between 1975-94, and particularly the implications for Finland participating in the third stage of the EMU. The study was based on the statistics of the Bank of Finland, building an econometric model for Finnish FDIs; firm-level behaviour was not dealt with in the study. The study suggested that the drivers for Finnish direct investments in a foreign country are the host country GDP, the Single Market, the host country export share in total Finnish exports and the degree of structural similarity in economies. It was concluded in the study that Finnish investments into the EMU area would increase if the third stage of EMU increased the participating countries' GDP and if the common currency increased competition in the same way as the Single Market programme has done.

Research method

The purpose of the study was to get a rather representative picture of the Finnish firms' experiences of the Finnish membership in the EMU and thus a broad survey method with a large sample appeared to suit the purposes of the study best. In the selection of firms into the survey attention was paid to the relative shares of industrial sectors in Finland. Therefore services were definitely included, and within the service sector it was seen relevant to separate the trade, both wholesale and retail, from other service sectors, as it was assumed that firms in the trade sector would have experienced many changes due to Finland joining the EMU. Another factor was that trade, as perhaps services in general, have not always received the attention they deserve in discussion concerning economic integration. Moreover, the share of trade firms out of the total number of firms is significant.

There were more than 200 000 firms in Finland in the end of the 1990s. About 13 per cent of those were manufacturing firms and about 26 per cent were wholesale or retail trade firms. However, it was seen necessary to weight the sample first towards manufacturing and secondly towards trade sector firms because they are typically larger in size, have more international exposure and are more relevant e.g. in terms of the balance of payments of the national economy of Finland. A sample of firms were selected from the industry data base

according to the industrial sector classification by the Statistics Finland, and consequently the following aggregate industrial sectors and sample sizes were chosen:

– metal, equipment and machinery manufacturing	700 firms
– other manufacturing	500 firms
– wholesale and retail trade	600 firms
– service sector other than trade	200 firms

Within each sector firms were randomly selected from a database listing all Finnish commercial enterprises. Sales of at least one million euros and engagement in either export or import activities or both were used as screening criteria in the selection of sample firms. At the outset a response target of 20 per cent was set, which would have yielded some 400 responses. That was seen as very much sufficient for the purposes of the study, provided that the firms represent the different sectors in a balanced way.

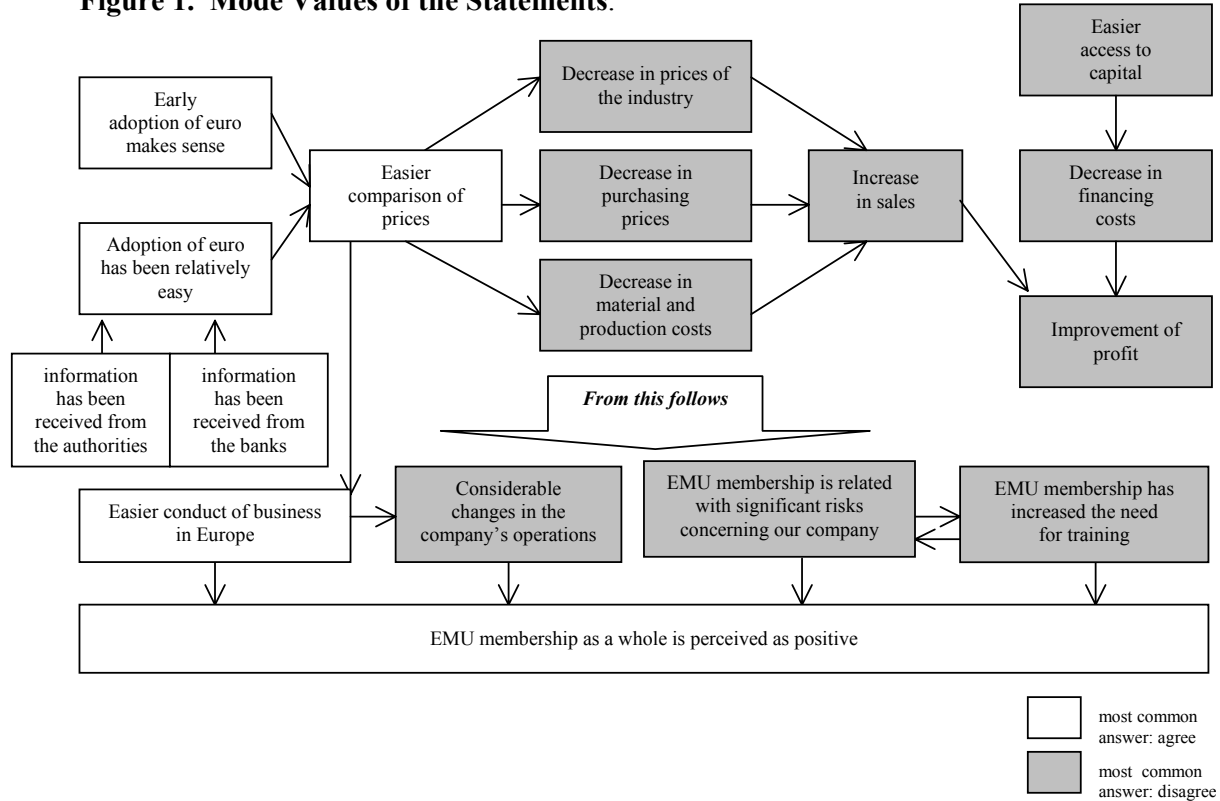
After two rounds of questionnaire mailing a total of 201 completed responses had been received, which gives a response rate of 10 per cent. Metal industry firms represented 33 per cent of the sample, other manufacturing 28 per cent, wholesale and retail trade 22 per cent, and other services 12 per cent. For some ten firms it was impossible to determine the industry sector. The questionnaire included questions concerning the number of personnel, sales, share of exports, share of other foreign sales, share of sales into the EU and EMU member countries, and on the company profitability. In the questionnaire there were seventeen statements on Likert scale, and sixteen open-ended questions.

As to the positions of the respondents in the firms, majority were managing directors or general directors, the rest being mainly sales or marketing or export directors or managers and finance directors or managers. Nearly all respondents were male.

The 17 statements measured on a four-point Likert scale were analyzed as separate variables and arithmetic means, and the modes and standard deviations were calculated. The mean values varied from the most positive 1,9 (‘Adoption of euro has been relatively easy’) to quite strongly disagreeing 3,4 (‘EMU membership is related with significant risks concerning our company’). Most mean values, 13 out of 17, were on the positive side.

The statements and some dependencies are illustrated in Figure 1. The colors illustrate the mode values. Majority of respondents had agreed with the opinions in the white boxes, whereas majority of the respondents had disagreed with the opinions on gray. Through the figure we can suggest that the most positive effects of the EMU membership are the introduction and adoption of the new common currency, the easier comparison of prices and the easier conduct of business in Europe.

Figure 1. Mode Values of the Statements.



In order to ensure the applicability of the variables in joint analyses to reveal dependences and correlations, independent variables were all transformed and classified as dummy variables. Cross-tabulation could be used with such variables and is useful in determining associations between two variables or more.

The responses provided data on ratio scale (sales, personnel, etc.) and on ordinal scale (answers to Likert scale statements). In the analysis of data, some multivariate statistical methods were used to explore the data in order to find possibly interesting co-variation. However, one needs to interpret the multivariate analysis results with caution, as for instance the ordinal scale data is not ideal for factor analysis, for instance. Nevertheless, the sample of two hundred responses with ratio and ordinal scale data provides a basis where the exploratory use of these methods is justified.

Just for the sake of exploring the data, somewhat violating the statistical analysis rules, the opinions (on the Likert scale) were treated as interval scale data, and Spearman's rho correlation tabulation was run and possible associations assessed. No strong dependencies between independent variables (e.g. amount of sales and amount of personnel) and dependent variables (17 opinions) were found.

The statements evaluated by the respondent companies were cross-tabulated. The statements were analysed by dividing opinions according to the industry, internationalisation level of operations, size of the company (SME or a large company) and profitability of the respondent company (level informed by the respondent according to their own perception). Khi square test was used to test the probability of such percentages to arise coincidentally.

The variables made of the opinions were utilized in a factor analysis, where the opinions that indicated correlation with each other were used. Some variables had to be removed to ensure a successful analysis. These four variables did not seem to correlate with the other variables and thus would not have contributed towards better results. As a final result of the factor analysis is a rotated factor matrix (Table 3) from which we derived two factors, which were named: *impact on costs* (1) and *impact on profit* (2).

'Effect on costs' factor (1) includes the following variables:

- Introduction of euro has led to a decrease in purchasing prices (-),
- Introduction of euro has led to a decrease in prices in the industry (-),
- Introduction of euro has led to a decrease in financing costs (-),
- Introduction of euro has led to an easier access to capital (-),
- EMU membership has led to a decrease in material and production costs (-).

Worth noticing is the fact that by the values of the histograms we can see that the modes of all variables carry value three (3 equals 'disagree') and the medians were close to value three (3) as well. This means that the statements that were grouped together to form the factor 'Effect on costs' are not to be considered as opinions, but only a grouping of correlating variables.

Table 3. Rotated Factor Matrix.

^a
Rotated Factor Matrix

	Factor	
	1	2
Euro has led to a decrease in purchasing prices	,854	
Euro has led to a decrease in the prices of the industry	,744	
Euro has led to easier access to capital	,636	,315
EMU has led to a decrease in production costs	,605	,530
Euro has led to a decrease in financing costs	,541	,481
Effect of EMU on profit is positive	,387	,668
Effect of EMU on sales is positive	,329	,644
Adoption of euro has been relatively easy		,573
Conduct of business in Europe has become easier along with EMU	,387	,530
Early adoption of euro makes sense		,514
Introduction of euro has made the comparison of prices easier		,466

Extraction Method: Principal Axis

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

'Effect on profit' factor (2) includes then the following variables:

- Effect of EMU membership on profit is positive (-),
- Effect of EMU membership on sales is positive (-),
- Conduct of business in Europe has become easier along with the EMU membership (+),
- Introduction of euro has made the comparison of prices easier (+),
- Adoption of euro has been relatively easy (+),
- Early adoption of euro makes sense (+).

This grouping includes statements, as opposed to the first factor, with which the respondents agreed. (The mean value of the variable is illustrated in brackets.) The absolute value of the first two variables was not positive, however, a negative answer to a question, whether the effect of EMU on sales or profit has been positive does not necessarily mean that the effect has been negative, but probably positive effects have not yet been realized.

Findings

Analyzing the associations between the variables we can see that the reasons behind the perception concerning easier conduct of business in Europe are the early adoption of euro and easier comparison of prices. Early transfer to the new currency was perceived positive afterwards since it made prices more transparent and since it most likely in these cases had been a relatively easy process. The advice and help received from both authorities and banks has contributed to the easy adoption of euro.

As to Finland joining the EMU and its effects on the foreign operations of the firms, over 70 per cent of all the respondents said that there had been no effect. For larger – and internationalised – companies EMU and euro do not bring change with respect to foreign operation modes. As to the SMEs, the explanation behind the neutral opinion may be that changes and developments in operation modes are not realized overnight, but typically take several years.

Concerning benefits experienced by the respondent firms, due to Finland's membership in the EMU or the common currency, almost 35 per cent of companies found that the foreign exchange risks had been reduced. Other significant benefits were related to the easier comparison of prices, conduct of business and pricing.

Over two-thirds of the respondents had experienced problems in the operations of their company, related to EMU or euro. Concerning problems experienced by the respondent firms due to Finland's membership in the EMU, the largest single problem was the currency changeover and the costs of this process. In addition, increase in bureaucracy was perceived as a problem. Other problems were very industry or company-specific. Interestingly, increase in competition was not found threatening.

Next, findings from our analysis are grouped according to company size, degree of internationalisation and industry.

Size of company as a differentiating factor

Interesting results were found when searching for associations between determining variables (such as amount of sales and personnel) and dependent variables (opinions). A company's size played no role in how the company perceived risks; as a whole EMU membership and euro were not seen to relate with risks. However, need for training was evident in those companies that did see EMU membership as risky. Some association also was found between the perceived risks and the easiness of the adoption of euro. We can assume that if the adoption of euro has been troublesome, consequently EMU and euro are perceived risky. However, these risks are most likely very company-specific and not necessarily related to the EMU membership's risks as a whole.

With relative certainty we can say that larger companies have managed to adopt euro better than SMEs. Understandably, large companies may employ specialists and introduce specific changeover projects for the adoption of the new currency. In addition, training is likely to be organized for specific tasks or functions, which indeed contribute to better execution of the changeover. Also, the changeover and adaptation is likely to be more efficient in large companies where specific targets may be set and their realization is perhaps more easily monitored.

EMU membership has not had a positive effect on sales in most companies, especially the large companies have not noticed benefits. Realization of such benefits can take time and since the changeover was underway, these benefits or threats were not noticeable.

Table 1. Findings with Respect to the Size of the Respondent Company.

Statement	Percent of SMEs agree or totally agree	Percent of large companies agree or totally agree
EMU membership has had a positive effect on sales	31	21
EMU membership has increased the need for training	35	50
Introduction of euro has had a decreasing effect on the financing costs	28	50
Introduction of euro has had a positive effect on the ability to acquire capital	7	27

The large companies have experienced the need for training with the EMU membership and the introduction of euro more than the SMEs. We can assume that SMEs are to a larger degree engaged in domestic operations and therefore in these companies special measures concerning EMU membership and the introduction of euro are not required as much as in the larger companies, which are typically more international.

Less than one-third of the SMEs find that the financing costs have decreased along with the EMU membership. The corresponding amount of larger companies is 50 percent. Supposedly large companies pay more attention to financing costs and more actively seek favourable and affordable alternatives and consequently have perceived more advantages than SMEs. Also the access to capital was perceived to be easier among the larger companies. It appears that even if capital is, at least in theory, now easier to get from the larger, pan-European capital markets, it is not really a relevant factor to small and medium-

sized companies, which rather deal with local partners. In other words, although financing might be cheaper from abroad, SME management prefers to arrange financing with local banks, venture capital firms and investors, and deal in their own language, in the familiar home country legal environment.

Degree of internationalization and international experience

When comparing associations among companies either with mainly domestic or with also international operations we found differences in opinions. As a definition of an 'internationalised company' we used a threshold of 20 percent of sales from international operations.

The largest domestic industry sector among the responses (39 percent of all responded domestic companies) was retail and wholesale trade. The largest industry sector with international operations was the metal, equipment and mechanical engineering sector (39 percent of all responded companies with international operations). Expectedly, 89 percent of all retail and wholesale companies had operations mainly in Finland, whereas over 70 percent of companies in the metal, equipment and mechanical engineering sector are international according to our definition.

The companies with international operations find the EMU membership the most beneficial, which is not a surprise. It is understandable that companies engaged in international operations find the EMU membership advantageous to their operations and that the effects of the membership and the introduction of euro are more significant to their operations than to the operations of the more or less domestic companies.

In companies with international operations, the company size and the ease of adoption of euro did not have association. 'International' companies are on average larger and due to their experience in international business possess better prerequisites for the currency changeover. However, among the domestic companies, the strongest association was found between the size of the company and opinions concerning the easiness of the currency transformation. In smaller companies the changeover has not been as smooth.

Table 2. Findings with Respect to the Degree of Internationality of Operations.

Statement	Percent of companies with Finnish operations agree or totally agree	Percent of companies with international operations agree or totally agree
EMU membership has had a positive effect on sales	22	36
EMU membership has had a positive effect on profit	23	41
Adoption of euro has been relatively easy	77	88
Introduction of euro has had a decreasing effect on the prices in the industry	15	16

In the companies with international operations the adoption of the new currency has been easier than in the domestic ones. International companies deal daily with different currencies and financial departments are better resourced to adopt a new one. Therefore, in

the international companies, the new European currency is perceived to make the business operations easier and reduce the foreign exchange risks. In international companies, the adoption of euro is an important step and a big – but in the best case – a routine type of change.

Differentiated according to company profitability, the more profitable companies perceived that the training needs had increased. We could speculate that in a more profitable company training receives more attention but is lower in the priorities in companies with profitability pressures or problems.

Industry-related differences

The most positive experiences were those of companies in the metal and equipment engineering and mechanical engineering sectors. These companies are most internationalised and assumably will gain the most from the EMU membership and euro currency introduction.

The responded service companies understandably had not perceived decrease in the prices of raw material or production costs neither decreases in the prices of the service industry. The most significant cost item in service companies are personnel costs. Finland, as of today, has not significantly benefited from the free movement of labour in Europe nor have there been changes in specific labour costs. Naturally, the comparison of prices and the seeking for more affordable alternatives benefits companies with significant raw material costs in manufacturing companies. Also one needs to remember that of the responding service companies almost 60 per cent are operating mainly in the domestic market.

A sector with more sceptical opinions about the monetary union and the introduction of euro is the retail and wholesale trade sector. Within this sector the transition into euro is especially laborious. In the service sector the introduction of euro seems to have been realized the best whereas in the trade sector the experiences are more negative.

The trade sector also perceived the membership more risky than other sectors. Naturally, the common currency among the European countries can contribute to the entry of the large, international and European retail chains into the small, Finnish market. Indeed, it appears today – based on the experiences from the last two years - that the EMU membership and the introduction of euro would contribute to the entry decisions of foreign retail chains into Finland; within the last year e.g. German Lidl and Bauhaus have landed on the Finnish soil.

Conclusions

The findings reflect the earlier research results (Seristö 1999, Whyman 2002) and expectations concerning the impact of EMU and euro on business. Reported changes follow the official EU parlance, although the changes are somewhat slower than predicted. The overall conclusion from the survey is that firms seem to have experienced more benefits than problems due to Finland joining the EMU. The most benefits are realized by larger, internationalised companies.

The benefits and problems, at the time of conducting the survey, were quite operational by nature – as opposed to strategic-level problems such as increased competition – and mostly

relate to the currency changeover and costs of transition. The largest benefits were related to the reduction of foreign exchange risks, easier comparison of prices, easier conduct of business in Europe and increased transparency in pricing.

Although generally perceived positive, EMU membership had not yet had e.g. a positive effect on sales in most companies. Comparable, strategic-level processes take time and it is assumed that these changes had not yet been realized. Somewhat different results would be expected if the survey were conducted again, after a few years since the currency changeover. Therefore, significant changes in Figure 1 are probable concerning opinions about costs, prices and profits.

Considering the results of the survey, the conclusion of Whyman (2002) about the benefits of preparedness makes sense. Early and well-planned transfer to the new currency was perceived positive afterwards since it made e.g. prices more transparent. Furthermore, with relative certainty we can say that larger companies have managed to adopt euro better than SMEs. Understandably, large, international companies find – in addition to pure necessity – more incentives to carryout the transition as soon as possible and pay more attention to training by introducing specific changeover projects for the easy adoption of the new currency. Strong incentives, however not realized yet, include reduction in costs as well as reduced exchange rate risk premiums resulting in lower real interest rates and consequently lower cost of investment (Whyman 2002).

One relatively domestic sector with more sceptical opinions about the monetary union and the introduction of euro was identified: the retail and wholesale trade sector. The trade sector justifiably perceived the membership more risky than other sectors, and based on the Finnish experiences from the last two years, EMU and euro have indeed contributed to the entry decisions of foreign retail chains into Finland.

Then, what could firms in those countries that aspire to become members in the EMU learn from the experiences of Finnish firms? Judging by the experiences of the Finnish companies, early changeover and investments in planning the transition in advance are recommendable. Useful advice from banks and authorities was accessible, at least in Finland. In case smaller companies do not have in-house expertise related to currency transition, it could be sought after from these sources.

Even though the larger, international companies were the most proactive towards the changes brought by the EMU, smaller and more domestic companies should also be prepared, at least for the possibly strengthening competition. Even though the benefits or the threats relating to EMU and euro do not seem alarming to SMEs, it would be recommendable to at least plan some reactions to the (future) changes as soon as possible. Although it is acknowledged that the operative-level considerations occupy most of SMEs' managerial resources, companies should invest some resources in strategic planning to address the possible increase in competition from larger, international entrants, especially in the retail and wholesale trade sector.

Taking into account not only the relatively small size of the Finnish economy and her geographic location, but also the different economic histories of Finland and the potential new EU members, it appears reasonable to suggest that many of the experiences of Finnish firms after Finland joining the EMU are worth paying attention to in those countries that

are likely to become new EMU members in the future – be they present EU members or future EU members.

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