# Thinking small for the benefit of many

*Supporting the process of internationalisation of retail SMEs in the EU*

**European Governance Master Thesis**

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# Abstract

**Purpose –** The goal of the research is twofold. It aims to identify obstacles that hinder retail SMEs in the process of internationalisation within the EU and to create a framework to address these factors.

**Design/methodology/approach –** This research presents the results from a content analysis of a wide variety of papers. It identifies and classifies different obstacles together in overarching categories. Subsequently, digitalisation is analysed to assess whether it can address the obstacles in these categories through e-governance.

**Findings –** Digitalisation can provide clear support to SMEs in the process of internationalisation. Through digitalisation, governments can provide businesses with information regarding requirements, rules and regulations in foreign markets, create awareness of internal limitations of the SMEs and offer assistance during the process itself.

**Research limitations/implications –** The newly developed model has not been tested in different EU Member States.

**Practical implications –** The information that is provided to SMEs during internationalisation needs to be tailored to the specific needs of the retail sector. Foreign markets are often complex; specified information helps SMEs to understand them.

**Originality/value –** Many studies focus only on theoretical aspects. This thesis develops and provides a framework for policy makers to support SMEs in the internationalisation process.

**Keywords –** Internationalisation, retail, digitalisation, e-governance, small and medium-enterprises, European Union

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# Abbreviations

| | |
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| **ECJ** | European Court of Justice |
| **EEN** | Enterprise Europe Network |
| **EGDI** | E-Government Development Index |
| **EU** | European Union |
| **FDI** | Foreign Direct Investment |
| **ICT** | Information and Communication Technology |
| **JRC** | Joint Research Centre |
| **RBV** | Resource Based View |
| **RRI** | Retail Restrictiveness Indicator |
| **SDG** | Single Digital Gateway |
| **SME** | Small and Medium – sized Enterprises |
| **TSC** | Territorial Supply Constraints |
| **UCC** | Union Customs Code |
| **UN** | United Nations |

# 1. Introduction

Change is an essential part of life. The world is constantly moving and few things remain unaffected by this. One of the biggest changes after the Second World War is the opening up of the world in the form of globalisation. People are increasingly traveling to places all around the world to study, work and live. These changes go beyond the lives of individuals and also affect systems. Nowhere is this as clear as with economic globalisation. Economies all around the world are becoming increasingly intertwined. Because of this both positive and negative effects in national markets quickly spread to affect the whole of the world economy.

One of the largest regional economic markets is the European Union (EU). Since the beginning of the European project the removal of trade barriers between countries has been one of the main aims. The European leaders realised after the Second World War that Europe suffered from a competitiveness problem compared to large economies, most notably the USA. Therefore the countries needed economic unity to rebuild their economies (Mărcuţ, 2017). Now, after more than 70 years of cooperation, the European countries have integrated their economies to an unprecedented degree. There is a Single Market based on four freedoms: free movement of goods, services, capital and people. In this way, the creation of the Single Market in the EU has led to an increase in welfare for the citizens (European Commission, 2019a). However, at the same time the Single Market is still not complete, which hinders the development of EU companies to compete on a global scale.

The fact is that the Single Market, even with the four freedoms in place, is not without internal borders. In itself, the use of the term 'internationalisation' when analysing opportunities *within* the EU Single Market already indicates that the project is far from finished. Customers and businesses often still think in a national context and are hesitant to expand across borders. There are cultural (business) differences, differing legislation and practical problems. Moreover, national governments remain hesitant to transfer more competences to the EU and are protective of rules that benefit companies within their boundaries. So the problem is twofold. One issue is that there still exist trade obstructions that hinder companies to cross borders. Second, even when all the barriers are removed companies might restrain from expanding to foreign markets due to practical problems such as language differences. It has been shown that in this environment especially small and medium-sized enterprises (SMEs) struggle to internationalise their companies and benefit of the Single Market (European Commission, 2019b). The European Commission (the Commission) tries to solve these problems and further integrate the market by consistently showing that further integration will add to the overall GDP of the EU and create jobs. At the same time it deals with the practical problems, for instance by creating a common European currency. Solving these problems would mean unleashing the full potential of the Single Market in terms of welfare for EU citizens. Nevertheless, many of the obstacles stay in place

and progress is only made slowly. Thus, the EU and different actors involved keep on striving for further integration of the economies.

A key sector of the European economy, and one in which the problems regarding the Single Market become evident, is the retail sector. The retail sector accounts for 4.5% of the EU's GDP and provides jobs for 9% of the European population (European Commission, 2019c). Therefore, it is safe to state that this sector constitutes one of the cornerstones on which the European economy is build. A further analysis of the sector shows that the core of the sector in 2016 consisted of SMEs, comprising 99% of all firms (Eurostat, 2019). Moreover, the SMEs in the retail sector generate 61% of total employment and 51% of the total turnover (Eurostat, 2019).

Also the retail sector does not have a fully integrated market. The existence of barriers was confirmed when the Juncker Commission in 2015 addressed retail restrictions within the Single Market. The Commission emphasised that many retailers face disproportionate regulatory barriers when opening a store (European Commission, 2015a). Moreover, consumers are still hesitant to buy products across borders from firms located in other Member States (European Union, 2012). Especially in times of expanding online consumer activity, it would be expected that people become less aware of borders and purchase products from where the quality is the highest and prices are the lowest. Nevertheless, only a third of the consumers have equal confidence in cross-border online transactions as in domestic online transactions (European Union, 2012). This shows that even when barriers are removed and markets become fully integrated, it remains difficult for many retailers to sell to customers in other countries. This has negative effects on all parties involved. Improved access to online retail would lead to increased competition. In turn this would lower the prices for the consumers and would lead to improved quality of the products. Moreover, for retailers it would open up larger markets and lower the costs for expanding. In the end it can thus be concluded that the limited integration has two sides: obstructions for retailers to expand internationally and obstructions for consumers to buy from retailers located in other countries. Both need to be addressed for complete market integration. As increased integration would benefit the parties involved, it is worth examining the factors that sustain the current situation and prevent the establishment of a fully integrated single European retail market.

Besides the creation of a Single Market there is a parallel development that changes society at large. This development influences people's personal life, the government and also the way business is conducted. This parallel development is known as digitalisation. Its impact cannot be underestimated, as people spend an increasing amount of time online to obtain almost any kind of information. Furthermore, it changes the traditional way of working, as increasing numbers of employees are working from home (Bloom, et al., 2015). Also for

businesses the move into the digital age can be observed. Within the retail sector this becomes evident as an increased number of sales are being conducted online in the form of e-commerce. Well-known examples of companies that benefit from this development are Amazon and eBay. These companies have grown into large multinationals in a relatively short time, indicating that consumers are willing to shop online in search of a wide diversity of retail products. Finally, governments are transferring increasing amounts of services and points of contact for citizens to websites.

The EU tries to use the growing prominence of digitalisation to integrate different national services into a centralised European service. By stepping in at the right moment, the EU tries to prevent that members states create different national systems which later would have to be harmonised. However, this is a slow process and in many sectors the digitalisation first happens at the national level before the European dimension is taken into account. The introduction of the Union Customs Code (UCC) illustrates this development. The UCC has several aims, including completing the shift to a fully electronic customs environment and to streamline customs procedures (European Commission, 2019d). However, a recent evaluation of the introduction of the UCC indicates that it is a complex task that will require much more time than initially envisioned. There are many different systems in place that are built on different national data models. Aligning these systems is a time-consuming task. Reasons for this include political barriers and the underestimation of the complexity of the task by the EU (European Parliament, 2018). Another EU digitalisation initiative that has a broader scope of application is the Single Digital Gateway (SDG). This project will bring together online access to information, services and administrative procedures for both citizens and businesses in a single point (European Commission, 2018a). The goal is to support citizens and businesses that are moving from one EU Member State to another. Taken together, these developments show that the digital age is developing and that there are clear opportunities to use this to further integrate the Single Market.

All of the above described developments are not standing on their own. The developments happen simultaneously and often influence each other. Most importantly, they can be used to support each other. Just as the digitalisation of government services is used to further integrate the market within the EU, it might also serve to foster market integration in the retail sector. One of the main focus points of the Regulation regarding the SDG is to "ensure the functioning of the internal market with regard of the provision of information" (European Commission, 2018b). Nevertheless, the information that is necessary for internationalisation is not the same in all sectors. It is therefore important to identify for each sector what the specific needs are, and what services should be offered on the platform to ensure added value for enterprises. If this is not done, there is the risk of underestimating the complexity of projects as the UCC and SDG. Additionally, SMES will have different needs

compared to larger companies. As especially SMEs struggle to internationalise, this deserves special attention and should be analysed. Thus, this study will combine these different aspects to explore the issue. To summarise, it will look into the added value of an online (information) platform for SMEs in the retail sector.

## 1.1 The research questions

This research will explore the possibilities of combining the creation of a single retail market with the digitalisation process in an effective manner. A recent study of the retail sector shows there are numerous requirements for retail companies that want to expand abroad, with significant differences between the Member States (European Union, 2014). There is even different legislation in different parts within the same country, as the requirements and regulations are adapted to local needs. The different requirements touch on many topics as opening hours, working conditions and of course taxes. Many of these areas fall within the competences of the Member States and the EU does not have a say on these.

Given that there are so many different requirements, it is a big step for a company to expand internationally. At the same time it is unlikely that these rules will be streamlined in the near future. Therefore the threshold of internationalisation needs to be lowered in a different way. This can be achieved by creating an understanding of the foreign markets. As increasing amounts of information are moved online, retail companies should be able to benefit from this in their expansion across borders. The earlier mentioned example of taxes illustrates this. Different VAT rules apply in different parts of the EU and by rule companies have to pay the VAT in the country where they sell their products. However, the declaring of taxes is a complicated process which requires knowledge of the rules and the system. The question then is whether the information that is available is also accessible to foreign companies? Many national information websites are only available in the language of the member states and it might also be difficult, and therefore costly, for foreign companies to find this information. If knowledge is power, then the lack of knowledge is a weakness in the form of missed opportunities. This research will look into the possibilities to support SMEs to expand abroad by giving them more knowledge about the foreign markets. The central research question that will be answered is the following:

**How can digitalisation through information provision support retail SMEs in the process of internationalisation?**

The main aim of the thesis is to establish if the provision and availability of online information is of added value to the foreign companies. If this is answered in the positive then it has to be

established in what way it supports them and recommendations can be given on how to optimise this.

To find an answer to the central research question it is divided into two sub-questions. The first sub-question centres on the information provision, by identifying issues on which SMEs need to be informed:

- What obstacles do SMEs encounter in the process of expanding their business across borders?

The EU internal market needs to be analysed to identify these obstacles and thereby topics on which information should be provided. How has the European retail market developed over time, how big is the role of retail within the European economy and what does the regulatory framework regarding retail look like? To answer these questions internationalisation as such needs to be defined.

The classical view of internationalisation divides it in three stages. In the first stage there is a business that operates on a national scale. The second stage is characterised by the firm exporting to other markets. In the final stage the business invests in the foreign market to expand its presence (Braszczynsky, 2014). So it is a process of growing beyond a clearly defined national market to enter a new market. This is not a linear process that all businesses automatically follow. In the course of time there are several obstacles and opportunities that affect the speed and development of the progress. Oviatt & McDougall (2005) provide a model that displays the forces that influence the speed of internationalisation. This model shows that knowledge about the new market is a vital aspect for the companies. It can restrain or facilitate the process and therefore plays an important role. Another obstacle is the need for access to a network in the market that the company wants to enter. Networks can assist to identify business opportunities and offer support in the process of entering a new market. At the same time, these forces can become an obstacle to internationalisation if they are limited, which is especially the case for SMEs. Thus, before a conclusion can be made on how digitalisation can support retail SMEs, the difficulties they encounter in the process of internationalisation need to be identified.

The second sub-question focusses on digitalisation. Digitalisation is a broad concept which is widely known, but more difficult to define. According to the dictionary Oxford University Press (2019) 'digital' relates to the storing of information in the form of digital signals and as such it often relates to the use of computer technology. Digitalisation then refers to the conversion of information into a digital format. However, the digitalisation of information is not a guarantee for added value, as there is always a risk of information getting lost in the process. This happens for instance when information is available, but not

locatable. Therefore, the concept of digitalisation should be analysed. This is done by the following question:

- In what ways has digitalisation affected SMEs and the government?

Digitalisation, among other things, offers new opportunities for SMEs to gather information about customers and to reach the customers. To get an overview of all of these different influences, the impact of digitalisation on SMEs needs to be analysed. In this way it can be established in what ways SMEs have adapted to the digital age.

Besides the adoption of digitalisation by the firms, digitalisation also changed the environment in which businesses operate, most notably in the changes of governmental services. Labelled e-government, progress has been made with services that governments offer online. These online procedures aim to increase the effectiveness and efficiency of government procedures (Lee & Kim, 2007). It serves citizens by offering them the option to make an online appointment, communicate digitally with the government and even complete entire procedures online. Moreover, it not only serves citizens but also companies. This has many different aspects as it for instance in some cases has made it easier for companies to register online.

The importance of e-government is also recognised by the United Nations (UN) and since 2001 they have conducted a yearly survey to rank the scores of countries worldwide on the services they offer online. According to the UN (2018) e-governance not only offers inclusive, transparent and accountable governance, but it is used in a far wider array which also includes health, education and employment. All of this not only serves the user side, the citizens and companies, but also the supplier in the form of the government. The government is better able to link different sources and databases to come to all-inclusive conclusions. This growth in the size of data sources leads to better informed and substantiated policy making (United Nations, 2018). However, it might also hinder companies as it requires knowledge to fill in the required forms, and governments might ask for an increasing amount of information. Moreover, an interconnected database that contains all different kinds of information raises questions about cybersecurity. A breach of the database can have large consequences. Nevertheless, as e-government is expected to play a vital role for both public administration and governance in the future it is worth looking into the different forms of application (Lee, 2010).

The second sub-question will be answered by analysing these two parts. This will provide information on the ways digitalisation has influenced the government and the business strategy of SMEs. Thereby, the potential of digitalisation from both the side of the government and SMEs can be established. Subsequently, the information provision can be

tailored to the needs of the SMEs, while it at the same time is adjusted to the potential of the government. In this way the added value of the information provision regarding internationalisation obstacles is ensured.

## 1.2 Academic and societal relevance

The completion of the Single Market is a much discussed topic by both academics and politicians. One of the reasons for this is that, in theory, a fully integrated single market will provide many benefits for the citizens and enterprises. The Single Market has been studied especially from the governance perspective to identify barriers to trade. One of the findings is that creating EU wide legislation does not always lead to more homogeneous markets. National governments have been reprimanded for the misapplication of single market rules, delays in implementation and enforcement, and deliberate non-compliance (Egan & Guimarães, 2017).

In academic studies on processes of internationalisation, mature, larger companies have been the main subject of analysis for a long time. Up until recently, SMEs have received much less attention (Dominguez, 2018; Ruzzier, et al., 2006). Therefore, there is a clear need for more research on SMEs to identify and analyse the barriers that SMEs encounter. At the same time there are constantly new developments, as for instance the digitalisation, which also offer new opportunities. One of the main advantages of digitalisation is that it offers easy access to large amounts of information, and information is vital in the process of internationalisation (Peschken, et al., 2016). Making effective use of digitalisation for the completion of the Single Market can uncover unexplored potential offering SMEs access to possibilities that were closed to them before. This will also let the EU move forward towards achieving its goals regarding integration, whilst at the same time adjusting the provision of information and services to contemporary needs. The broad terms and benefits of a SDG for the EU have been defined. However, to the best of my knowledge, there is no research that looks in detail into how digitalisation can serve the creation of a single retail market, in general and more specifically for SMEs. By analysing how it can serve this specific sector the added value of such a platform can be ensured. This research will in that way help in creating an appropriate format and implementation to assist SMEs.

Likewise, also from a societal perspective it is important to look into internationalisation and the possible ways to further integrate the EU market. The world is increasingly globalising and companies are growing in size and activity in different countries. Before it has been shown that the 1% of the retail companies that are categorised as large businesses employ almost half of the people in this sector and collect about half of the revenue. These large companies have more resources and knowledge at their disposal to research expansion possibilities, which gives them a clear competitive advantage. It is no

longer possible for SMEs to operate in the marketplace without taking globalisation into account. To offer SMEs more equal opportunities, governments need to change their information provision and policies. Nevertheless, increasing the business opportunities for SMEs is not only a protective measure that benefits the people working in this sector. It will also lead to several benefits for the rest of society. For consumers, a single retail market will improve the quality and quantity of products that are available, lower the prices and create new jobs (European Union, 2012). Moreover, it will serve companies in the retail sector by providing them with knowledge about external markets. They will be better able to assess whether they are able and willing to expand across the border into new markets. Especially, in the context of Brexit, and the economic decline this might cause, it will serve the companies to broaden their customer base. An additional benefit is that the companies will be driven to innovate and become more productive, in response to the increased competition. Finally, the results may, to a certain extent, be applicable to other sectors and serve as a blueprint for integration of other sectors. It will show if there are sector specific needs that should be taken into account in European projects as the UCC and the SDG.

Thus, in this way this research will create an overview of the needs for, and impact of, the internationalisation of retail SMEs. By analysing both the positive and negative effects it can help SMEs in the retail sector to prepare for the future. This can have an impact on all layers of society and can serve as the basis for future research into retail market integration and internationalisation of SMEs.

## 1.3 Research method and readers guide

Although compared to firms in other sectors retail SMEs are a coherent group with their own identity and characteristics, there is also is a large variety among them. There are many different business structures, firms offer a diverse range of products and they focus on different consumers. These differences have an influence on the internationalisation process and thereby affect the outcome. This makes quantitative research an unsatisfactory method for research into the internationalisation process, as it fails to capture all of the possible forces that drive and steer the company over the course of time. Qualitative research, on the other hand, is very well suited to explain the 'why, how and who' of organisational processes (Doz, 2011). As internationalisation is a very dynamic process, it ensures that all important aspects that play a role come forward. Qualitative research, in the form of case studies, captures all of these influences. Still, when it comes to the methodology there is a large variety in the gathering of data for internationalisation studies (Kuivalainen, et al., 2012). Data is gathered by, for instance, semi-structured interviews and self-administered questionnaires. Nevertheless, these methods often have in common that the employees or managers of a company expand on the process and how it affects their company.

However, there are two problems related to the case study method. The first one is that case studies often are specific and not generalised (Welch, et al., 2011). The results are therefore difficult to apply in a broad context. They are mainly used for the initial exploratory phase of research, instead of for confirming a theory. The second problem is that case studies take into consideration the context in which a business operates, while the focus of researches in general is on a neutral context (Welch, et al., 2011). As a neutral context ensures the observations can be attributed to the examined variables. In this way there can be made well founded conclusions about the causation. To counter these two problems this research takes an overarching view. Instead of interviewing companies and doing case studies, it analyses multiple case studies from papers. In this way the results will be applicable on the retail sector in general. Regarding the second problem, the context is actually of added value when studying internationalisation processes. The process of internationalisation cannot be understood separate from its environment (Welch & Paavilainen-Mäntymäki, 2014). It is a process in which other firms and factors in its network play a role. Therefore, the research should not take place in a neutral context, to ensure all of the dynamics are included.

The current research method also has its drawbacks. Qualitative research is often exploratory and provides descriptive findings. Moreover, although qualitative research is well suited to analyse the internationalisation *process*, it is less suitable to identify the *effects* from internationalisation. The process includes obstacles the companies encounter and these are often not expressed in numbers and figures. The effects of internationalisation, on the other hand, such as the growth of sales and increase in turnover, can be expressed in figures. Many scholars look into this correlation between internationalisation and the growth of a company. However, because of the many different factors that affect the business this association is not a proof of causation. It can, for instance, show that there is a relation between the companies that sell products through the internet and growth in sales of a firm. However, it is not able to exclude all other factors, as the companies that sell through e-commerce might have a competitive advantage in the first place. The study of internationalisation effects is further complicated by the lack of consensus on what defines successful internationalisation. This will be extended upon in the chapter on internationalisation.

Being aware of these limitations, the focus of this research is on the process, and how to attend to the obstacles SMEs meet. Therefore, this research has two goals. The first one is to identify factors that hinder SMEs in the process of internationalisation. It aims to take a new perspective and identify and analyse several factors to create an overarching framework in which these can be placed. The second goal is to provide a model with which

the factors within the framework can be addressed. In this way it will offer policy makers methods to support SMEs in the process of internationalisation.

To meet these two goals, the second chapter will first go into the retail sector within the EU. It is a diverse sector, touching upon many different aspects of the economy. This chapter will explain the regulatory structure for the retail sector that is in place in the EU. The third chapter is devoted to the process of internationalisation. It will describe the process and identify obstacles that SMEs encounter. The fourth chapter will go into digitalisation. This has affected both the governments and businesses. At the same time it offers opportunities, to increase information provision and interaction between these two groups. The fifth chapter will subsequently put all the gathered information together to create an overarching model. This model combines the findings of the other chapters and can be used by policy makers to support SMEs that want to internationalise their operations. However, for the model to be used to its full potential there are several steps that need to be taken. These actions will be discussed in the sixth chapter. Finally, the seventh chapter summarises, concludes and makes recommendations for future researches.

## 2. The retail sector within the Single Market

As mentioned before, the retail sector is one of the cornerstones of the European economy and encompasses many different products. It is a sector that is present in every single country, but at the same time signifies a very broad concept with many different aspects. So before going further into this the sector needs to be defined, and an overview of the regulation that is in place regarding retail in the EU needs to be given.

### 2.1 The European retail sector

Retail is defined as "the sale of goods to the public in relatively small quantities for use or consumption rather than for resale" (Oxford Dictionaries, 2019a). This includes a wide range of different shops. It includes for instance vital life sustaining products as food and drinks that people buy at supermarkets, but also high-quality luxury products such as jewellery. So retail refers to a broad definition that entails the sales of a wide array of products by many different shops. Therefore it is not surprising that this sector has always been present in society. However, that does not mean it has not developed or changed. Especially after the end of the Second World War the sector went through quick successive changes. The European retail sector had to adapt to a global context after 1945, and this period can be divided in three phases.

The first stage right after the Second World War focussed on the reconstruction of the organisational and physical structures (Dawson, 2006). Consumers over the years were looking for an increasing amount of products after the scarcity during the war. At the same time the rebuilding of the retail sector was used to reconstruct cities and adapt the cities to modern needs. The second phase started with the development of the "common market" and the accompanying integration of the domestic retail markets (Dawson, 2006). Retail stores became more specialised as the amount of products further increased and explored new formats, as for instance the self-service superstores. Furthermore, consumers became more demanding and not only wanted more products, but at higher quality of products. The final stage is characterised by a restructuring of the retail sector with a further expansion of the services it offers to society (Dawson, 2006). The development of new technologies and increased availability of information have enabled retail to enlarge its role beyond the customers. Over time it has become more present in the different links among the supply chain, from the creation of a product until the final sale to a customer. Some of the most affected sectors are transportation and logistics, farmers and wholesale. Within these sectors retailers have expanded their presence and activities by coordinating the relationship with suppliers, which has led to an increased complexity of organisational structures and an increased focus on internationalisation (Dawson, 2006). In this way, the retail sector affects the whole of the economy with its extensive network of links to other sectors.

The central role of the retail sector in the European economy becomes especially clear when taking a closer look at the key statistics of the sector. As already mentioned, the retail sector accounts for 4.5% of the EU's GDP (European Commission, 2019c). The majority of this share is accumulated by grocery retailers, ranging from 40% in Austria to 60% in Romania (European Commission, 2018c). Other specialised retailers that are present all over the EU focus on footwear, health & beauty and electronic appliances. However, it is difficult to divide the sector into more specialised sectors as many retailers do not have a narrow focus, but instead bring a wide range of goods to the market and the structures of stores differ per Member State. The diversity of the stores is further explained by the fact that there are more than 3.6 million companies active in the retail sector in the EU, providing almost 9% of all of the jobs in the EU (European Commission, 2019c).

The result of the large role of the retail sector within the European economy is that some chains are currently listed among the largest companies within the EU (e.g. Carrefour and Tesco). Nevertheless, in 2016 still 99% of the retail companies in the EU were SMEs (Eurostat, 2019). SMEs are defined by the EU as companies with a staff consisting of a maximum of 250 employees, a turnover of maximum €50 million and in total a maximum of €43 million on the balance sheet (European Commission, 2019e). Even though, the majority of the retailers in the EU are smaller companies with mainly a local presence, the efforts of all these companies taken together leaves a large footprint on the economy of the EU. This is not only visible on the higher level, it is also worth noting the impact it has on certain subgroups. Looking at these figures more closely shows for instance that it is one of the most important sectors for youth employment. About 13% of the people employed in this sector are between 15 and 24 years old (European Commission, 2018c). The popularity of working in this sector can be explained by the fact that it is often easy to combine with other activities, and thus it becomes the first job for many youngsters. All of the above taken together, it is clear that the retail sector is one of the most important sectors for the provision of jobs in the EU. Its role over time has changed and its roots have extended into other fields of the economy.

A specific issue characterising the retail sector needs to be mentioned separately, because of recent developments and the potential it has to further change the market in the future. This issue is e-commerce, which over the last years is increasingly used by consumers to buy products online. The figures show that 69% of the EU citizens in 2018 bought a product or service online, an increase from the 61% of the citizens that did so in 2013 (Eurostat, 2018). Around the same period the total value of the goods that are sold online has almost doubled, from €121 billion in 2012 to €224 billion in 2017 (European Commission, 2018c). As mainly the people in the age category between 16 and 44 years old make online purchases, it can be expected that the number will further increase over time. It

is therefore not surprising that 63% of the EU retailers have their own website (European Commission, 2018c). The total number of online retail sellers is even higher when retailers that sell through third-party platforms, such as Amazon or eBay, are taken into account. If this trend continues in the same way as it did over the last years, the online presence of retailers will only increase in the future.

The role of the retail sector is not limited to the employment side of the economy, but extends to affect the citizens of the EU in another way. Citizens in the EU spend about 30% of their budget in the retail sector (European Commission, 2018c). The high figure is not surprising as people need to buy products from retailers to satisfy basic needs. Nevertheless, certain parts of shopping are also seen as a leisure activity. Therefore, it is important for both policy makers and retailers to keep in mind that shopping as leisure activity is a factor that plays an important role (Wagner, 2007). People spent a part of their free time going to city centres and shopping malls for relaxation and socialising purposes. Policy makers are also aware of this, which especially becomes clear in city centres. Here retail is regarded as a vital part of the atmosphere and identity of the city. The different shops affect the quality of life and attractiveness of city centres for both visitors and the inhabitants. London and Paris, among many other reasons, attract tourists because of the shopping experience it offers to visitors. Nevertheless, also in small villages and cities shops are vital for the atmosphere of a town. Small shops are regarded as the core of communities and a place for social interaction between local citizens (Keegan, et al., 2012). It is thus not surprising that especially over the last years, due to for instance the growth of e-commerce, many local councils are worried that shops will disappear from their city centres.

At the same time large superstores, which have a preference for the suburbs where the price of land is lower, draw away consumers from the city centre. Vacant premises are viewed as having a negative effect on the vitality of a city centre. As such the pulling away of consumers from the centre to the suburbs is expected to create a downward spiral in which other enterprises will be discouraged to move into the city centre. The precise effects and developments differ per country and city, but it is undeniable that the retail sector is in constant movement. The effects of these shifts in the sector affect communities and citizens in many different manners. To assist communities the EU published a guide on how to support retailers in the city centres (European Commission, 2018d). Moreover, city councils and national administrations put rules in place to safeguard the vitality of a city with for instance urban planning.

The indicators described above provide an overview of the developments in the European retail sector. It shows the different ways in which the sector has become extensively interwoven into different aspects of both the economy and society. Because of these many links, Member States have put in place regulation to protect consumers and

businesses. This regulation regards both product and establishment requirements. The result is a highly regulated retail sector in the EU Member States (European Commission, 2018c). However, even though the demands have often been the same, regulations in the different countries can differ significantly. This creates substantial complications for the sector.

## 2.2 Retail regulation in the EU Member States

The retail sector is regulated at national, regional and local levels, which can be explained by the many aspects of society it touches. These regulations have been put in place for a reason, but can nevertheless be experienced as a hindrance by retailers. At the same time many of these regulations fall outside the EU competences, which means the EU legislature has limited power to harmonise them within the EU. Nevertheless, even when this national legislation is justified in the light of the public interest, Member States must follow certain rules set by the EU. A recent preliminary ruling of the European Court of Justice (ECJ) in *Visser Vastgoed Beleggingen BV v. Municipality of Appingendam* (ECLI:EU:C:2018:44) may further limit the freedom of national actors in this regard.

In this specific case the municipality of Appingendam was using a zoning plan that designated certain districts outside the commercial city centre as a commercial zone for exclusively retail trade in bulky goods. By limiting the outflow of retailers to the suburbs the municipality wanted to ensure the viability of the centre. Visser Vastgoed owned a premises in one of these districts outside the centre and wanted to lease this to a retail outlet for shoes and clothing. It challenged the decision of the municipality, arguing it infringes on the freedom of establishment of service providers. The Dutch court requested a preliminary ruling of the ECJ on this case, which included the question if retail should be regarded as a service. The ECJ ruled that retail trade should be seen as a service, and as such falls within the scope of the Services Directive.

Effectively, this means that obstacles to freedom of establishment can be challenged on the basis of EU law. The Member States cannot create barriers to restrict retail trade and establishment. Article 14 of the Services Directive, for instance, states that the requirement of an economic test for economic planning purposes is prohibited (European Commission, 2006). In effect this ruling restricts the possibilities for restrictions by both national and regional governments. However, planning requirements that do not pursue economic aims, but instead serve the public interest, are according to the Services Directive legitimate. An important part of the case of *Visser Vastgoed* is therefore that the ECJ acknowledges that municipalities can, in their zoning planning, include restrictions for retail trade outside specifically designated geographical areas for public interest reasons, as long as it meets the requirements of non-discrimination, necessity and proportionality as set out in Article 15(3) of the Services Directive.

Despite retail being categorised as a service, many aspects relating to establishing a retail company still fall outside the competences of the EU and are solely part of the powers of the Member States. Establishing a company is often a completely internal matter that takes place within a single Member State, and as such the EU has a limited say on this. For this reason it is interesting to note that the ECJ in its preliminary ruling in *Visser Vastgoed* stated that for an effective protection of the freedom of establishment (Chapter 3 of the Services Directive), the scope should not be limited to cross-border situations. This goes directly against the intentions originally stated by the EU legislature. For the EU legislature the Services Directive clearly concerned cross-border situations, at it is about the rights of providers 'to provide services in a Member State other than that in which they are established' (Article 16(1)). The ECJ dismisses this limitation with the argument that if an internal market of services is to be achieved, especially obstacles service providers encounter while establishing themselves in a Member State need to be eliminated, regardless of whether this is in their home market or in another Member State.

This significantly expands the powers of the EU legislature in creating a single services market, and therefore a single retail market. This effectively gives the EU and ECJ a mandate to challenge retail legislation even when it concerns an internal situation in a Member State. Thereby it can significantly reduce the freedom of national governments; expand the competences of the EU regarding retail establishment and operations; and can aim to achieve further integration. As this is a recent case, it is still to be seen what the implications of the preliminary ruling will be for retail regulation in the Member States.

Notwithstanding this recent development, the EU is attempting to harmonise the legislation in different ways. The Commission recognises that with regards to the Services Directive, clear and transparent criteria for establishment and unrestricted provision of services are very important aspects (European Commission, 2018c). To influence these aspects and remove obstacles within the internal market, the Commission has turned to an often used instrument in which it examines, compares and ranks the regulatory framework of its Member States. By ranking the different regulatory frameworks in the Member States the Commission aims to give a useful overview to policy makers, and at the same time inspire the Member States to make changes.

With the creation of the Retail Restrictiveness Indicator (RRI) the Commission aims to measure the level of restrictiveness of limitations put upon the retail sector (European Commission, 2018c). The establishment pillar of the RRI includes factors that affect the possibility to open a shop in the country and in the framework it has been given a slightly higher weight of 60%. The operations pillar includes factors that affect the daily operations of the retailers; this pillar has been given a weight of 40%. Everything taken together, the RRI gives a factual overview of the restrictions put upon the sector in the different Member States

(Table 1). It is important to keep in mind that the RRI does not focus on the difficulties that *international* retailers meet when entering a new market, instead it focusses on the difficulties that all retailers encounter when opening a shop in the country. The restrictions that retailers meet when crossing borders will be addressed in the next chapter.

Table 1

*Retail Restrictiveness Indicator framework* (European Commission, 2018c)

| Pillar | Sub-pillar | Indicators |
|---|---|---|
| Retail Restrictiveness Indicator | Establishment (60%) | Conditions (55%) | Size thresholds (20%) |
| | | | Level of detail in local plans (10%) |
| | | | Location specific rules (10%) |
| | | | Economic data requirements (15%) |
| | | Procedures (45%) | Number of permits (10%) |
| | | | Number of entities to contact (10%) |
| | | | Publication of decisions (5%) |
| | | | Number of impact assessments (10%) |
| | | | Length of procedure (10%) |
| | Operations (40%) | | Shop opening hours (20%) |
| | | | Sales promotions (20%) |
| | | | Sourcing of products (20%) |
| | | | Distribution channels for specific products (20%) |
| | | | Retail specific taxes and fees (20%) |

The Joint Research Centre (JRC), the Commission's science and knowledge service, has carried out a statistical assessment of the RRI framework. Without going too deep into the analysis of the RRI, three findings of the assessment are of particular importance for the current research. First, regarding the quality of the RRI, the JRC concluded that it is a well-constructed instrument that is useful for both policy analysts and researchers. It brings together a vast amount of relevant survey data, is very detailed and has become an

instrument that holds unique data from all the Member States of the EU (Dominguez-Torreiro, et al., 2018). Second, the conceptual grouping into two pillars and 14 types of restrictions in the form of indicators is statistically confirmed by the JRC (Dominguez-Torreiro, et al., 2018). Third, regarding the importance of the two pillars the report concludes that the index is even more affected by the establishment pillar than specified by the Commission (Dominguez-Torreiro, et al., 2018). According to the researchers, the correct weighing is 80% for establishment restrictions and 20% for operational restrictions. The JRC stressed that the pillars should not only be seen as part of the RRI, as they can also be used standing on their own. Thus, overall it shows that the chosen indicators give a good overview of the restrictions that retailers meet in the process of opening a shop in a specific EU Member State.

Figure 1 shows that there are large differences between the Member States. Some of the rules that Member States use even appear to be set at random levels. The indicator 'size threshold' is an example of this, and gives a clear illustration of the wide variance in requirements that exist between Member States. All the EU countries, except for Latvia and Sweden, have specific requirements for different sizes of retail shops (European Union, 2014). This is a logical development, as larger stores will have a larger impact on the location where they are situated compared to smaller stores. Next, there are additional conditions and regulations in place, such as the need to conduct an impact assessment and to apply for permits to be allowed to open stores of a certain size. The strictest rules are applied in Denmark and Ireland, where grocery stores above a certain size are forbidden to operate in certain locations (European Commission, 2018c). Nevertheless, authorities in most Member States do not have a methodology to define these thresholds, but instead rely on statistical definitions that have been created by institutes (European Commission, 2018c). To further complicate matters, different thresholds can be in place in different regions within countries, caused by the capacity of local authorities to devise their own rules and requirements. Consequently, thresholds and related requirements can differ significantly from one Member State to another. This creates an unclear regulatory framework within the EU.
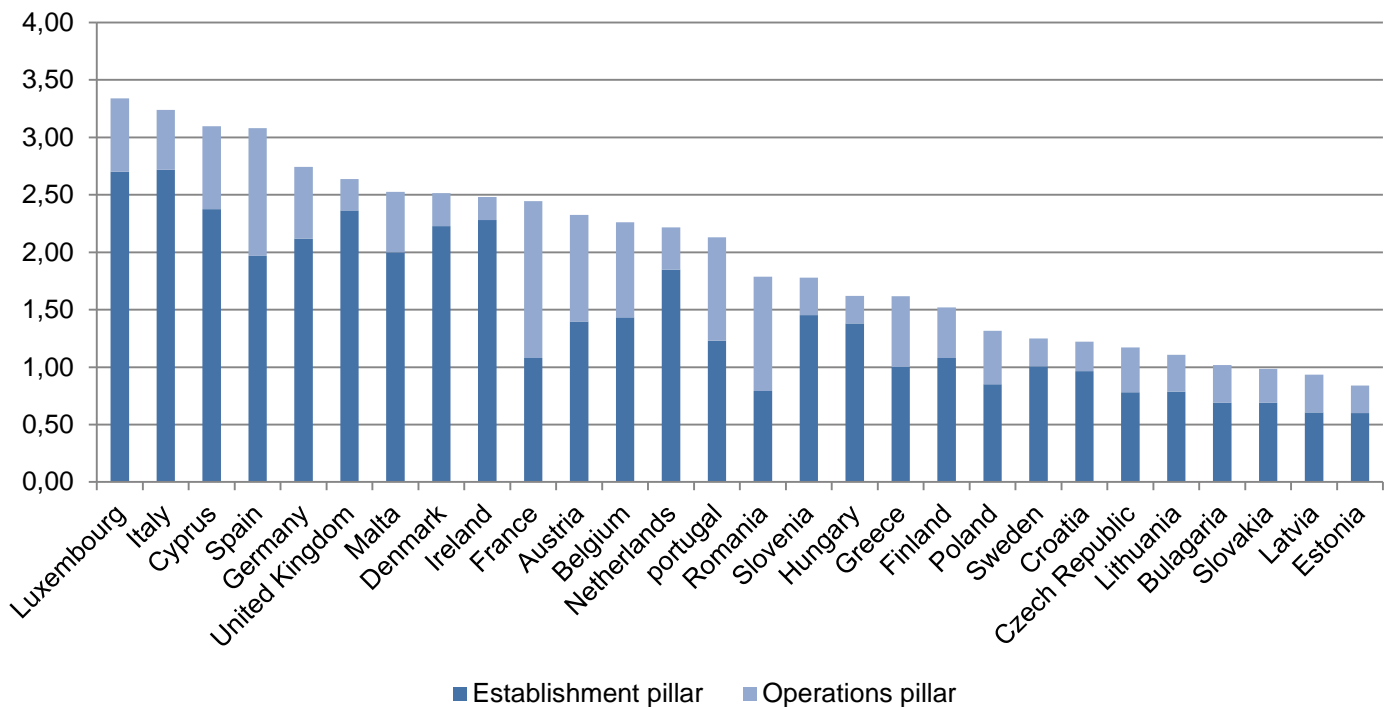
*Figure 1*. Score of EU Member States on the Retail Restrictiveness Indicator (European Commission, 2018c)

E-commerce is in theory less dependent on the different regulatory frameworks in the EU Member States, as the retailers do not need to open a store in the country itself to sell their products. Moreover, the majority of the EU Member States do not have specific regulations in place for e-commerce (European Commission, 2018c). This does not mean, however, that e-commerce is not restricted and affected by the regulations that are in place.

Specific rules regarding, for example, sales periods also cover online sales. Within Belgium sales periods with heavily reduced prices are only allowed in two set periods a year. This also applies to online sellers. As online customers are more price sensitive, and it is easier for them to switch between stores, this does have an impact on the retailers. Additionally, websites do need to meet certain standards that differ between countries. In the Netherlands, for instance, online sellers cannot demand a full payment from customers. At least one of the payment methods should offer the customer the possibility to pay a maximum of 50% in advance.

To remove problems relating to differing legislation it is to a certain extend harmonised on the EU level. Within the EU there is, for instance, the right to cancel an online order within 14 days and a minimum 2 year warranty period. However, these are minimum standards and countries can have additional legislation in place. In the Netherlands, for instance, consumers do not have a defined warranty period. Instead the warranty period of a product depends on how long that specific type of product works on average. This makes it

complicated for a German online seller, who has to enquire if it has to follow the Dutch or German regulations when making sales in the Netherlands.

In line with these examples a survey showed that over half of the retailers that did not yet sell online indicated that unawareness of rules was one of the largest problems (European Commission, 2015b). The retailers found it difficult to establish which rules they would have to follow if they opened an online store, and thus they restrained from opening a web shop. Especially for the smaller retailers it is difficult to invest time and resources in obtaining sufficient knowledge regarding the regulations. Also from a governmental perspective issues have emerged. Problems related to cross-border e-commerce arise, for instance, regarding the jurisdiction that is applicable, and how to solve disputes (Hoops, 2012). Another issue that needs to be addressed is the avoidance of VAT payments. Increased e-commerce will make it more difficult for authorities to follow the flow of goods across borders and verify that the right amounts of taxes are payed (Hoops, 2012). If e-commerce keeps on growing in the way it currently does, it is likely that specific regulations will be created. As there, as of yet, are relatively few regulations in place, there is an opportunity to create harmonised, EU wide legislation. Especially, as in the light of the recent plans of the Commission to address geo-blocking and territorial supply constraints, the cross-border flows of goods will undoubtedly increase in the future.

If the creation of e-commerce regulation is aligned along Member States, problems that have arisen in the retail sector in the past can partially be prevented. The existence of the scattered regulatory framework in the EU has a negative effect on the market. Regulation that is too restrictive has a positive effect on the creation of monopolies (European Commission, 2018c). The analysis of the establishment pillar of the RRI confirms this. The number of retailers that enter the market in EU countries is lower when there are more restrictions in place. Furthermore, fewer companies leave the market in these countries, which suggest that there is lower competition and inefficient companies are able to survive. On the other hand, it can also mean that only the efficient companies that meet the stricter regulations are able to survive. Nevertheless, if the data is further analysed negative effects of the restrictions come forward. The requirements regarding size thresholds of retailers are positively correlated with the price level in EU Member States (European Commission, 2018c). So the restrictions limit competition, leading to higher prices. Another negative impact of the presence of these restrictions is lower productivity (European Commission, 2018c). This is in line with the findings of Cheshire et al. (2011) who found that putting limitations on store sizes in planning policies in the UK directly reduced productivity.

Moreover, a comparison between the price levels for household final consumption expenditure (HFCE) on goods and services in different EU countries and the RRI shows interesting results (Figure 2). There is a strong positive correlation between the HFCE and

the RRI (r(26) = .581, p = .001) and it accounts for roughly 34% of the variance. However, it should be recognised how the HFCE not only includes the price of retail products, but also the price of other services. The exact size of the effect of restrictiveness on prices is therefore difficult to establish. Nevertheless, it can be interpreted as giving an indication of the relation between retail prices and the restrictions on the sector. When enterprises are limited in choosing their own format and location, it will negatively affect their competitiveness. Furthermore, an overregulated retail sector has negative effects on the employment growth in the retail sector (Bertrand & Kramarz, 2002). Thus, extensive regulations that are difficult to understand hold back the development of the retail sector.
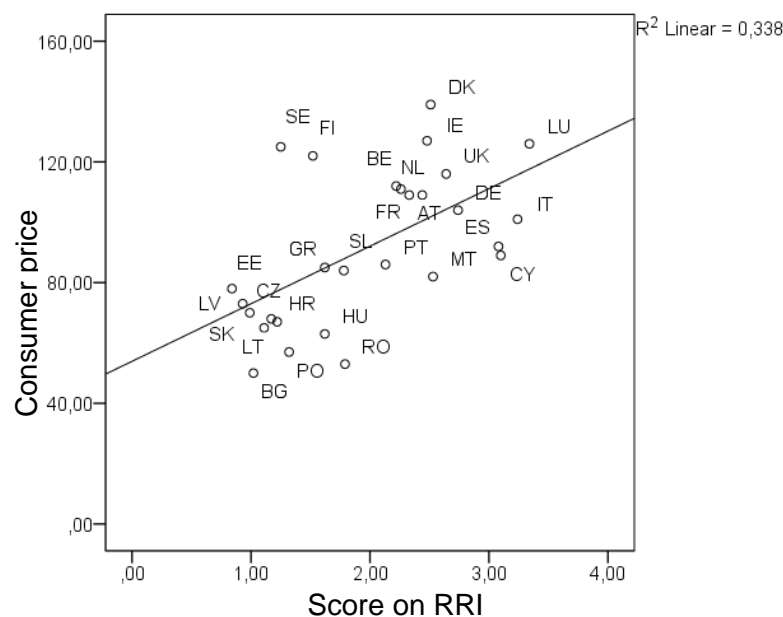


*Figure 2*. The relation between the price levels in the EU and the restrictions on the retail sector

This chapter has defined the retail sector within the EU and looked at regulation within the EU Member States. The establishment of a retail company was for a long time seen as an internal matter of Member States. However, *Visser Vastgoed* has shown that there is a clear European dimension and, as retail is a service, there are European rules that the retail regulation needs to adhere to. Furthermore, within this chapter an instrument was identified which shows the restrictions on the retail sector within the different Member States. This instrument is the RRI. Nevertheless, the RRI gives only an overview of national regulations. While international retailers might encounter additional problems, including language barriers and limited knowledge about points of information. Therefore, the next step is to analyse the cross-border process of internationalisation.

## 3. Internationalisation and obstacles for SMEs

Chapter 2 has given a broad overview of the retail sector within the EU. It discussed how the sector developed over time and the changes it went through. It is clear that the retail sector is characterised by the presence of barriers that limit the extent to which there is a free market. This chapter will further focus on the barriers that exist for companies that are expanding from their home market to a new foreign market. In analysing the case of companies that enter the international market, this chapter answers the first research sub-question: What obstacles do SMEs encounter in the process of expanding their businesses across borders?

For this chapter there is made the choice to focus on all of the SME internationalisation literature, instead of retail specific SME internationalisation literature. This choice is made because literature focussing specifically on internationalisation of retail SMEs is limited (Hutchinson, et al., 2009). At the same time part of the existing literature makes a distinction based on the industry instead of sector, so between different industries as supermarkets, machinery and electrical equipment. These different industries can, nevertheless, all be classified as retailers if they sell the products to consumers. Moreover, authors argue that literature on SME internationalisation from other sectors can have added value for understanding the SME internationalisation process of the retail sector (e.g. Vida, 2000). As a result there is in many papers not made a distinction based on the sector, only on the size of the firm. Especially as there is a lack of knowledge on specific SME retailer internationalisation patterns, there is a strong argument for using the general SME internationalisation literature (Hutchinson, et al., 2005). Nonetheless, when it was available there was a preference within this thesis to use literature on internationalisation that studies the internationalisation process of retail SMEs. Especially when identifying factors that become obstacles to the internationalisation process of SMEs.

### 3.1 The process of internationalisation

Internationalisation starts in the domestic market of a company. The most common business cycle for a company is to first grow in its home market. Once the position in the home market is secure the company can start to look for new opportunities in other markets. At the same time the characteristics of the company need to meet the requirements that come with the internationalisation process. So at this stage a selection effect already occurs; this will be further elaborated on at a later point. The next step is to increase the exports to a foreign market. As the exports and returns grow over time, the company is likely to further increase the investments in the new market. This process of expanding abroad after a period of growth and success in the home market is seen as the natural way of expanding a business (Winch & Bianchi, 2006).

There are several theories on the internationalisation processes of companies. These theories can be divided into four broad streams (Ruzzier, et al., 2006). The first stream of research that started in the 1950s focusses on the internationalisation process of larger companies, and is also known as the economic approach (Ruzzier, et al., 2006). The transaction costs model plays an important role in this research strand. These costs occur when a good moves from one technological stage to the next, or is exchanged between parties. In this transfer the transaction costs are the costs associated with the steps that take place in the process, and it examines comparative costs under alternative structures of the process (Williamson, 1981). As such it examines if the process could be done in a more cost efficient manner, with regard to the structure of the business, the operating parts of the firm and the organisation of the human resources. In the first stage of the economic approach, a company develops a product and concentrates on maximising domestic sales. In the second stage the firm starts to export and adjusts to maximise the production for international markets. In the third stage, exporting is replaced by investing in the foreign market to lower the transaction costs (Braszczynsky, 2014).

The second stream focuses in particular on SMEs and especially on developments over time within these smaller firms (Ruzzier, et al., 2006). Models in this research strand put emphasis on the increased commitment of, first, activities and, second, resources over time. One of the most well-known internationalisation theories, the Uppsala model, belongs to this stream. The Uppsala model of internationalisation defines it as a consequence of incremental steps, each bringing the company closer to expanding across the border (Dominguez, 2018). It looks mainly to where and how a company chooses to expand. According to this theory the process of expansion goes gradually, with first a foreign interest in the products and as the exports increase, the control over the exports increases and subsidiaries might be created. Market research is central to this theory (Dominguez, 2018). The companies need to learn about the new markets to successfully expand. As SMEs often lack knowledge and resources, this theory expects companies to internationalise in markets that are geographically or culturally close, and thus more similar to the home market. Initially, this expansion is done by means of exporting rather than expansion by creating an affiliate in a foreign market (Dominguez, 2018). However, this model was first published in 1977 and since then the market has developed, and also changed. E-commerce, for instance, is a new aspect that since then has been introduced and offers new opportunities of internationalisation to companies.

Another element of the business environment that is difficult to explain with the Uppsala model are 'born global firms' (Peschken, et al., 2016). The distinctive features that define these companies are time (a relatively short time span between the creation of the company and the start of internationalisation), speed (at which internationalisation develops)

and the scope (aiming at an international or global market) (Hagen & Zucchella, 2014). Born global SMEs are further characterised by a large international presence and a high ratio of foreign sales compared to total sales (Kuivalainen, et al., 2012). The emergence of born global firms seems to be driven by the development of information and communication technologies (ICT), new market conditions and the increased importance of global networks (Hagen & Zucchella, 2014). In light of this and other developments, the authors of the model have made several revisions. Where the old version focused on the conquest of a new market, the new model puts increased emphasis on the integration in a business network (Dominguez, 2018). Business relations are becoming more important. The success of internationalisation has become more dependent on the relation with important suppliers and customers (Dominguez, 2018). Despite of this, the lowering of uncertainty and learning about a new market when internationalising remains vital. In the literature the Uppsala Model still serves as a basis for the explanation of the process of internationalisation and is one of the most cited theories (Welch & Paavilainen-Mäntymäki, 2014).

Another influential model that came forth from the second stream is the innovation-related internationalisation model. The innovation model suggests that internationalisation is a process of sequential stages in which every new stage is like the adoption of an innovation (Dominguez, 2018; Welch & Paavilainen-Mäntymäki, 2014). There are several versions of the innovation model that differ in the number of stages, but they all show a linear progression towards increased internationalisation. To study the process of internationalisation cross-sectional data of firm characteristics was collected, after which the firms were assigned to the stages. These stages differ on the level of advancement of their export sales (Welch & Paavilainen-Mäntymäki, 2014). Consequently, authors analysed which firm and managerial characteristics were associated with the different stages (Welch & Paavilainen-Mäntymäki, 2014). These two models of internationalisation have in common that they divide the process up in different levels or stages. The initial stages are characterised by firms having limited export activities. As exports grow over time, so does the commitment of the firms to foreign markets. These models show a very reactive approach to internationalisation, with companies expanding as demand grows.

The third stream which came up in the 1990s uses a network approach towards internationalisation. Models in this stream analyse businesses as being part of a network to understand how they internationalise (Ruzzier, et al., 2006). From this perspective the business initially operates within a domestic network. As the network of other companies expands so does, indirectly, the network of the initial business. Moreover, the business itself invests in its international network. Over time the business develops its network in other countries by linking to networks in other countries, the development of relationships within these networks and by connecting networks that exist in different countries (Ruzzier, et al.,

2006). This stream gives a clear overview of the context in which the firms operate. It also gives a more central role to entrepreneurs (McAuley, 2010). The entrepreneur is the spill which creates and maintains the network. As such the network approach gives more prominence to the central role that entrepreneurs play, by developing business relations.

The fourth stream – that came up in the 2000s – is the resource based view (RBV) of strategic management. This view focusses on attributes of businesses that are needed for internationalisation (Ruzzier, et al., 2006). It puts emphasis on unique traits that a company can already possess and on learning about new resources, which will give it a competitive advantage in expanding its business across borders. An example is experimental knowledge that can only be obtained through trial-and-error experiences. This theory puts different parts of preceding theories together. However, RBV research into SMEs is mostly absent (McAuley, 2010).

The above mentioned streams of research on how firms engage in internationalisation processes show a clear development over time. In the first stream there is little attention for the operations and characteristics of SMEs. As the world market developed, globalisation became more prominent and SMEs are increasingly identifying more opportunities to expand across borders. The second stream pays increased attention to SMEs. The third stream can also be seen as a reaction to the growing importance of globalisation. It focusses less on the characteristics of the individual firms and more on the business environment in which they operate. It aims to show how firms develop in relation to each other, thereby also supporting each other in the process of internationalisation. Finally, the fourth stream combines aspects of all the previous streams. In doing so, it also brings the older theories up to date. Despite all of these developments, the internationalisation research into SMEs is not yet completely comprehensive. To show the barriers that SMEs face in the internationalisation process, a closer look needs to be taken at the companies themselves.

## 3.2 SME internationalisation

It is commonly recognised that SMEs face different challenges compared to larger companies. The most important limitations that SMEs encounter are directly linked to their characteristics. These are low turnover levels, low numbers of employees and limited amounts of available capital. Moreover, SMEs are also different from larger companies in terms of managerial, operating and other financial characteristics (Hutchinson, et al., 2006). These differences have an impact on the processes and consequences of internationalisation. SMEs can grow exponentially if they successfully enter a new market. However, because of the limited resources of SMEs, the negative consequences can also be larger. In fact, unsuccessful internationalisation can even jeopardise the existence of the SMEs (Kraus, et al., 2017), indicating the risks that are surrounding processes of

internationalisation. Nevertheless, many SMEs succeed in overcoming these obstacles to successfully expand their business internationally. The smaller size of these companies can also have benefits. They are, for instance, more flexible in their strategy and will be weighed down less by existing assumptions within the company. In other words, they are more flexible because of less rigid business structures and therefore can adapt more easily when this is needed.

To draw comprehensive conclusions about this the SME internationalisation literature needs to be studied. Some authors argue that prior to the 2000s the particular experiences of SMEs have not been adequately studied (McAuley, 2010; Fillis, 2001). However, since the 2000s the internationalisation of SMEs has received increasing attention as a separate research topic (McAuley, 2010). This can be seen by the increase in the number of studies that analyse SME internationalisation behaviour. Second, there has been an increased global coverage that also includes inter-continental researches. This larger variety in the countries that are studied helps to explain the possible impact of the home market characteristics on the process. Third, an increased number of studies focusses on multiple-sectors and uses multiple-methods. This further contributes to a large diversity of the studies on internationalisation. All these developments lead to an increased knowledge of SME internationalisation in a wide variety of surroundings and analysed from different perspectives. Nevertheless, there are still gaps in the literature. For instance, there is a lack of longitudinal studies that examine firms and processes over longer time periods (Kuivalainen, et al., 2012; McAuley, 2010). Moreover, there is still no single holistic model that is generally accepted and which describes the stages and developments that companies go through (McAuley, 2010). Finally, another missing part is the practical relevance for policy makers (McAuley, 2010). The executed studies concentrate mainly on the theoretical implications, but pay little attention to how legislative actors can use the findings and support SMEs with internationalisation.

### 3.2.1 Antecedents of internationalisation

The starting point of many studies of SME internationalisation processes lies with the motivations that SMEs have to internationalise. Several drivers and characteristics are perceived as important stimuli and facilitators to internationalisation. In general, the motivation to internationalise can be divided into passive-reactive motives and proactive motives (Kraus, et al., 2017). The passive-reactive motives comprise reasons where a company expands its business abroad due to external circumstances. This can be as a result of for instance market maturity, new regulations or unexpected demands from foreign customers. SMEs that internationalise due to proactive-motives are driven by internal factors. These companies design specific strategies to expand abroad and enter new markets, and

expansion follows from the actions that are consequently taken. These motives precede and influence the course of the internationalisation. Other papers identified the same drivers and grouped these into exogenous / external factors and endogenous / internal factors (Gardó, et al., 2015; Hutchinson, et al., 2009). Consequently, according to Kuivailainen et al. (2012) the process of internationalisation of SMEs can be divided in three broad stages: antecedents, internationalisation patterns and outcomes. The antecedents precede increased export activities of a firm. These antecedents can be divided in three levels.

The first level is the managerial level. This level includes among others previous international experiences from managers and the mind-set of the board of a company. The impact of managers on the internationalisation process is widely recognised (Rundh, 2015; Hutchinson, et al., 2006; McAuley, 2010). As SMEs are relatively small, the vision of single individuals can have large impacts. Therefore, an entrepreneurial vision of a manager can significantly influence the strategy and the path that a company follows. Likewise, the personal network that a manager creates over the years can influence the strategy that a company follows. This clearly indicates that a proactive approach of the manager can make an important impact.

The second antecedent, the firm level, includes firm characteristics or assets such as resources, networks and knowledge (Kuivalainen, et al., 2012). A firm uses and tailors its characteristics from within to facilitate internationalisation. As retail SMEs often cannot compete with multinationals on the price of products, they have to find other competitive advantages or edges. For instance, some retailers offer unique products. They serve a certain niche in the market. Often this product is very specific and there is little demand for it in a national market (e.g. high-priced luxury goods). To increase the sales the company has to aim for a global market base. As there is relatively little demand on a national scale, but a significant demand globally. In this way serving a niche market becomes a facilitator of internationalisation (Hutchinson, et al., 2006). This is closely linked to the previous mentioned 'born global SMEs'. Companies that focus relatively quickly on the international market and acquire a comparatively large percentage of the total revenue from foreign sales. In this way born global firms are an example of how companies are less bound by borders in an increasingly globalised world. However, this strategy does not serve all companies, as the retailer needs to be able to offer unique products or have a distinct marketing strategy. Another antecedent of internationalisation at the firm level is the network of a company. Interactions and relationships with a broader network can work as an important driver for international expansion. Therefore, companies invest in expanding their network by promoting their brand on for instance fairs and events. The contacts that are made can bring - directly and indirectly - new customers to the retailer.

The third level is the environmental level. The environmental level comprises characteristics of the setting in which the company operates (Kuivalainen, et al., 2012). This includes factors such as the physical distance to the foreign market, the regulatory framework of countries and industry characteristics. These are features that are difficult for the company to influence. Nevertheless, developments on this level can have a large impact on the company. Likewise, the environment can also create obstacles that make it more difficult for the firm to achieve its goals.

The above mentioned antecedents precede the internationalisation of a firm. The first two antecedents, at the managerial and the firm level, can be seen as an important part of a selection effect. If a SME does not to a certain extend possess these it is unlikely that the firm will expand abroad. At the same time these first two antecedents are linked to proactive motives of internationalisation, as these motives and capacities come from within the company. The environmental level, on the other hand, mainly lies outside the influence of the firm and can therefore be classified as a passive-reactive motive. These classifications offer insights into forces that drive SMEs in the internationalisation process. Nevertheless, as mentioned in the previous chapter, retail SMEs encompass many different sectors and companies, which leads the businesses to follow different internationalisation patterns. Therefore, the next step is to take a closer look at the different factors that influence the process of internationalisation.

### 3.2.2 Internationalisation process of SMEs

Once the process of expanding abroad is set in motion, companies can follow different internationalisation patterns. These paths can be distinguished by time, scale and scope (Kuivalainen, et al., 2012). Time refers to the speed of the internationalisation process. The literature distinguishes between different sorts of SMEs, which are classified according to the speed of the internationalisation process. In this way SMEs that follow traditional paths of internationalisation are differentiated from the earlier mentioned born global SMEs. A third category consists of born-again global firms. These firms at a certain point rapidly internationalise, but contrary to born global firms this starts much later, after they have established themselves in a home market (Hagen & Zucchella, 2014). However, there is no exact time frame on which these different companies are distinguished from another (Kuivalainen, et al., 2012). Moreover, a firm can also pause the internationalisation process for a certain period, to continue later on. Thus, as there is much unclear about the different time spans, this research will not make a distinction between these different paths. Instead it will focus on the internationalisation process of all SMEs, regardless of the time it takes to increase the foreign sales. Besides time, the scope of internationalisation refers to the number of countries in which a firm is active (Kuivalainen, et al., 2012). Finally, the factor

scale refers to the impact of these foreign activities on the company (Kuivalainen, et al., 2012). This is often displayed by the percentage of the foreign sales compared to the total sales of a firm.

To increase both the scale and scope of their foreign activities SMEs use different methods. Exporting to a foreign country has the lowest risk, as there is only need for a limited resource commitment (Kraus, et al., 2017). The firm does not have to set-up a foreign subsidiary in the new market, but instead uses existing production facilities. This is also a method to explore a new market and find out if there is an interest in the offered products (Hutchinson, et al., 2009). It is also relatively easy to withdraw or redirect the exports going to a foreign market (Lu & Beamish, 2006). Another way of expanding to a foreign market is by licensing, franchising or partnerships with foreign companies. This brings a medium risk as there is a stronger commitment to the new market. Finally, foreign direct investment (FDI) into a new market in the form of acquiring or creating physical selling points brings about the most uncertainty as there is need for a large commitment of resources (Kraus, et al., 2017). At the same time it also has advantages over the previous two methods. The transportation costs are significantly lower, which is especially relevant for products with a large volume and a relatively low price (Lu & Beamish, 2006). Moreover, FDI is related to organisational learning in differing international markets, which enhances the competitive position of the firm (Lu & Beamish, 2006). Despite of the differences between these methods of expansion, there can also be recognised similarities between them. The processes are often described as a linear path that follows several stages (Kuivalainen, et al., 2012). It is an incremental process in which the commitment to the foreign market increases over time. This does not mean they cannot track back on the progress they have made. Sometimes companies shift the focus to the national market for a period, after which they continue to expand in the foreign market.

To gain further insight in the processes companies go through several studies analysed the experiences of individual companies. In many of the cases qualitative research was seen as the most effective method to gain insight in the activities of the firms. These qualitative studies use case-study approaches, often based on interviewing managers of the businesses to explore the experiences of the companies. The use of this research approach has drawbacks. It assumes that managers are aware of all the steps that take place on the different levels that influence the internationalisation. Furthermore, the influence of managers on the process can be overestimated. Nevertheless, in the literature it has been emphasised that managers and more broadly the managerial level have a large impact on the internationalisation process (McAuley, 2010; Ruzzier, et al., 2006). Moreover, they are positioned in such a way that they are aware and involved in most of the important

proceedings and decisions. Therefore, these studies provide good indications of what factors are important in the internationalisation process.

Making use of this research method, Kraus et al. (2017) identifies four main factors that, according to 187 German SME managers, influence successful internationalisation of SMEs. The first factor is the financing of the internationalisation. As SMEs have limited (financial) resources, an unsuccessful internationalisation process can have a large negative impact on the company. Debt financing is by the managers seen as constraining the operations of a firm. Therefore, according to the managers it is important that the company raises the required capital in other ways, for instance via equity funding and savings (Kraus, et al., 2017). Second, a long-term scope of the internationalisation process is seen as important, especially as internationalisation is a complex process during which the company needs to learn from its experiences. Therefore, new SMEs are expected to have a lower chance of succeeding in internationalisation compared to SMEs older than 6 years (Kraus, et al., 2017). Third, a proactive strategy is viewed as more successful than a reactive strategy. With a proactive strategy, a company will be better prepared and have developed strategies to deal with (unexpected) events. Finally, the choice of the right market is an important factor that influences the success rate of internationalisation. The market has to match the company and the products.

Hutchinson et al. (2006) use interviews and secondary data to analyse the internationalisation processes of nine British retail SMEs. The findings are to a large extent a continuation on the above mentioned three antecedent levels. For instance, several of the SMEs indicate that the manager played an important role in the decision of the company to expand internationally (Hutchinson, et al., 2006). Moreover, the international network also influences the course of the internationalisation. A number of companies have experienced a take-over. After the take-over, new opportunities opened up and they benefitted from the network of the mother company (Hutchinson, et al., 2006). At the same time, the analysis shows that the internationalisation processes are often accompanied by an expansion of international travels, fostering informal networking and the acquisition of knowledge of the new market (Hutchinson, et al., 2006). Another factor that is shown to be important is external assistance. About half of the companies indicate that they made use of government assistance and external advice (Hutchinson, et al., 2006). The results of these consultations are mixed, however. Although they provide companies with general information, this information is not specified to either retail requirements or the companies themselves. Next to identifying facilitators of internationalisation, Hutchinson, et al. (2006) also identify important inhibitors. The main barriers that the retailers indicate to have experienced are the required level of financial commitment during the start of the process of internationalisation, the complexity of the international markets, the lack of market information and problems with

brand control and management resources (Hutchinson, et al., 2006). It is interesting to notice that, in line with the findings from the previous chapter, some of the companies also specifically indicate that even within the EU there are still significant differences in local restrictions and legislation (Hutchinson, et al., 2006).

Hutchinson et al., (2009) use a qualitative case method design to study six retailers from the United-Kingdom. This study focusses on the barriers the retailers encounter at an early stage, as the majority of the companies interviewed are not yet active outside of the United-Kingdom. The barriers SMEs encounter are divided between external and internal barriers. The external barriers SMEs come across are difficulties relating to legislation, the currency, cultural differences and logistics (Hutchinson, et al., 2009). The authors suggest that these barriers can be overcome by the provision of information. It is mainly the novelty of the foreign market, with which the companies are unaccustomed, that hinders the firms. Therefore, these factors can be grouped together as market information factors. At the same time internal barriers related to management factors are a lack of vision, control of business operations and limited market knowledge (Hutchinson, et al., 2009). This partially relates to personal traits of the owners. If managers are risk averse, they might avoid new paths out of fear of losing control. Other internal barriers are created by company factors. The SMEs have difficulties transferring existing company concepts to a new market, experience a lack of resources and lack consolidation in the home market (Hutchinson, et al., 2009).

A study of 125 Croatian SMEs identifies information-based capabilities as an important facilitator of internationalisation (Miocevic & Crnjak-Karanovic, 2011). Knowledge of the foreign market leads to increased exports and internationalisation. Information-based capabilities give businesses a competitive advantage through understanding for instance the structure and general business environment (Miocevic & Crnjak-Karanovic, 2011).

Within the analysed papers many different obstacles that influence the internationalisation process of SMEs are identified. These are conceptualised as many different factors. Nevertheless, there appear to be important relations between some of these factors. A factor such as 'choice of the right market' is for instance closely related to 'market information'. In the same way, factors that are seen as inhibitors of internationalisation, as 'management resources', can become a facilitator if they are in sufficient quantities present. Analysing all these patterns there come forward three overarching categories of factors that are shown in table 2. These categories represent the factors that influence the internationalisation process of SMEs.

Table 2

*Categories of factors that influence the internationalisation process of SMEs*

| Management | Resources | Information |
|---|---|---|
| Long term scope | Financing | Choice of the right market |
| Pro-active strategy | Financial commitment | Complexity of the market |
| Brand control | International network | Market information |
| Management resources | Company factors | External assistance |
| Management factors | | Information based capabilities |

### 3.2.3 Successful internationalisation of SMEs

The final stage of internationalisation is the outcome (Kuivalainen, et al., 2012). However, this is more difficult to identify then would be initially expected. As SMEs are very diverse, the impact of the internationalisation differs. Moreover, the multiple motivations and goals related to internationalisation further complicate the measurement of performance on internationalisation (Lu & Beamish, 2006). Some studies, for instance, focus on ownership change, when the firm has succeeded in keeping its independence it is seen as a sign of a strong international position (Kuivalainen, et al., 2012). However, other researches look on this differently and even use ownership change as an indication of successful internationalisation, as it is regarded as the development of an international network (Hutchinson, et al., 2006).

Also, the indicators of scale and scope can be used to measure performance. However, as internationalisation is not a linear path, using only one of these indicators could give a skewed image. In the case of a decline in, for instance, the number of countries in which a company is active, it would reflect in the figures negatively. Nevertheless, this could be part of a long-term strategy to increase the scale in the remaining countries.

Finally, a strategy of internationalisation can have contrasting effects on different indicators of performance. Both growth and profitability, for instance, can be seen as indicators of performance. Nevertheless, FDI has a positive effect on the growth of a company, but a U-curve effect on the profitability (Lu & Beamish, 2006). FDI only leads to increased profits after the companies have accumulated knowledge over time, and in that way adapt to the needs of the foreign market.

Therefore, as there is not a single indicator, several factors can be seen as indications of successful internationalisation. These include the survival of the firm, growth of the exports, employment growth and an increase in market value of the company (Kuivalainen, et al., 2012). It is, thus, for a company to define the goals it wants to reach with

internationalisation. In defining these goals it should keep in mind that it fits the method of internationalisation.

This chapter aimed to answer the following research question: what obstacles do SMEs encounter in the process of expanding their businesses across borders? In the course of answering this question it became clear that in general the process of SME internationalisation can be divided in three stages. In the pre-internationalisation stage there are several antecedents that move the business towards increased exports. These antecedents take place at the managerial, firm and environmental level. Next, internationalisation patterns can be distinguished. During this second stage a large number of factors influence the process. These factors can be captured in three overarching categories: management, resources and information. These categories encompass the different forces on which the firm can (to a certain extent) have an influence. There are other factors at play, as certain advantages coming from the country of origin and the distance to the foreign market, but these factors are static and cannot be influenced by the company. Thus, these categories provide the answer to the first research sub-question. SMEs encounter management, resource and information obstacles.

However, the factors that fall under these categories are not only obstacles, but can also be framed as facilitators of internationalisation if the factors are present in sufficient quantities. In the third stage, the outcome, these categories can therefore also lead to successful internationalisation. Even though this cannot be expressed in a single indicator it is associated with, among others, an increase in scale and scope of exports, the survival of the firm and an increase in market value of the company.

Finally, it is important to note a limitation of the overview that is given above. In analysing the internationalisation process of SMEs there is already made a selection. The companies that are studied have made the choice to expand to new markets, where other companies did not. So to form comprehensive conclusions about characteristics of successful internationalisation, also the differences between the companies that export and the companies that stay in the national market should be studied. Nevertheless, this is beyond the extent of this study. Instead this study focusses on the factors that hinder and support the companies with the internationalisation process once this has started.

# 4. The age of digitalisation

'Digitalisation' is a popular and broad topic that includes many different aspects. It is a relatively modern development that has quickly entered into almost all aspects of life, including publications. In only three months in 2015 the word 'digital' was, for instance, mentioned in more than 900.000 articles (Falk, et al., 2017). Although it is a concept of which many people have some idea of what it signifies, its exact meaning is more difficult to define. A key characteristic is that it refers to something not physical, when something is digital it is "reduced to bits stored in computers" (Tapscott, 1995, as cited in Carlsson, 2004). According to the Oxford Dictionary (2019b) 'digital' relates to the storing of information in the form of digital signals and as such it often relates to the use of computer technology. Digitalisation then refers to the conversion of information into a digital format. It holds at the same time the promise of positive and the threat of negative social and economic effects (Falk, et al., 2017). A positive view on the growing level of digitalisation is that it promises to create jobs and makes the life easier for many people. The negative view assumes that it will disrupt the lives of many and will make abundant jobs that make use of human labour.

Everything taken together, there is a lot of uncertainty about what the effects of digitalisation will be. This chapter will focus on two aspects of digitalisation. In the first part the impact of digitalisation on SMEs will be analysed. I will take a closer look at how SMEs have adapted to the digital age. In the second part, I will analyse the impact of digitalisation on the government. Many services that are offered have been affected by digitalisation, especially as the government is an important information provider for its citizens. In the final part of this chapter I will link these two aspects to answer the following sub-research question: In what ways has digitalisation affected SMEs and the government?

## 4.1 Impact of digitalisation on SMEs

In chapter 2 it became apparent that the retail sector is constantly changing. It continually adapts to the wishes of customers and to the opportunities that new technologies offer. A clear example is the increase in large malls in the postwar period. Increased automobile ownership made consumers mobile, permitting retailers a wider range to establish a shop (Hernandez & Simmons, 2006). The retailers moved away from the city centres to locations downtown or in malls, where the rents are lower. This mobility also paved the way for superstores as Ikea. These stores need a large showroom to present their products. Considering this space is rare in city centres, the increased mobility of consumers benefited their concept. Without this development the brand might never have become as large as it is today. Just as the increased mobility of citizens had an impact on the format and business model of shops, so has digitalisation. In Europe, a large part of the population owns a smartphone, which is used to access social media, to find stores and to browse the internet.

This offers new possibilities for retailers to reach out to customers. Consequently, this has led to new business models. Broadly speaking, three different forms in which the digital availability of information has affected SMEs can be distinguished.

The first form shows how the digital provision of information is used by entrepreneurs to attract more customers to their physical shops. Social media and other digital communication methods offer new ways for SMEs to reach their customers. They can advertise their company and in this way directly reach customers, without the help of an advertising agency. SMEs use social media to promote sales and special deals, to communicate with customers and to obtain customer feedback (Jones, 2010). However, the increased presence of SMEs on social media and other internet channels can also generate negative effects. Negative images spread just as quickly over social media and this can have damaging effects[1]. Nevertheless, SMEs believe that they need to engage with social media even if they do not directly see the added value (Durkin, et al., 2013). They are afraid to fall behind their competitors and use social media. They do this without having a clear method or strategy, as they lack marketing specialists (Bocconcelli, et al., 2018). They do not create a communication strategy for campaigns and there is a lack of consistency between the posts, which can hinder the creation of a recognisable brand. Regarding this strategy and the use of marketing, the same limitations and strengths that SMEs face in other areas are relevant. SMEs are limited by a lack of marketing expertise and financial resources. At the same time, they have high levels of flexibility and creativity (Bocconcelli, et al., 2018). In the end, it is important for SMEs to build relationships with their customers. Through social media, SMEs can increase the level of trust that customers have in their business. This trust is essential for creating and reaching loyal customers (Jones, 2010), thereby broadening the customer base and increasing sales and profits.

The second form of information use concerns e-commerce. This offers entrepreneurs a whole new platform via which they can make information available to customers and generate revenue. Web shops are in fact a place where firms can provide information about their products to customers. In general, SMEs are less inclined to open a web shop than larger companies (Abebe, 2014). Nevertheless, it offers several advantages for a firm to expand its business online. One of the largest benefits is that it offers the possibility to reach a much broader and possibly global customer base (Abebe, 2014). This offers opportunities that cannot be created by having a physical store. Furthermore, the implementation of an e-

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[1]These possible damaging effects for the company do benefit society as a whole. The pressure to prevent negative events on social media promotes honest behaviour towards the customers. Moreover, there will be increased competition between SMEs, which favours consumers (e.g. higher quality of products and lower prices).

commerce model also increases the efficiency of a company, as it can serve customers all over the world at any time of the day (Abebe, 2014).

Besides, the expansion of a shop in an online platform can also give the firm a competitive advantage over its competitors. SMEs in the EU and the US reported financial gains in terms of administrative costs and revenue improvements (Johnston, et al., 2007). However, an important side note with this finding is that the analysis was dependent on estimates of respondents and not based on measurements by researchers. The respondents themselves attributed these financial gains to the adoption of e-commerce.

Finally, the adoption of e-commerce by SMEs leads to an increased sales growth rate (Abebe, 2014). This study of 55 SMEs related the growth rate of sales to the adoption of e-commerce. The results showed that companies which had adopted e-commerce had a significantly higher sales growth rate, compared to the companies that had not adopted e-commerce. Within this study the independent variable of e-commerce adoption was treated as a dichotomous variable, so the companies had either adopted it or not. Despite the study including control variables for the managers background and size of the firm, this makes it difficult to exclude all other influences and thus to find reasons for the positive effect of e-commerce on the growth of the sales. In line with this, it is important to keep in mind that it is difficult to establish whether SMEs grow because of the creation of a web shop, or that already growing SMEs are more inclined to adopt e-commerce. So the direction of the enhancing effect between e-commerce and growing SMEs is difficult to determine. Especially as not all SMEs have the resources to expand online, as there is the need for an initial investment to start a web shop. Therefore, SMEs need to consider the advantages and disadvantages before expanding online.

The third form in which digitalisation has affected businesses is that it offers a new way to gather information. This includes both information regarding customers, but also information regarding the market in general and accompanying regulations. This is essential, as one of the main advantages of digitalisation is that it offers easy access to large amounts of information, and information is vital in the process of internationalisation (Peschken, et al., 2016). SMEs often lack the resources for market-research and thus have to find other ways to acquire knowledge of the market. For instance, they may use their suppliers as a source for this kind of information (Celuch & Murphy, 2010). Moreover, social media is also a place where entrepreneurs can gather information about their customers, the market and competitors (Jones, 2010). It gives the entrepreneurs for instance insights into how many people view certain messages and whether they are shared by customers. In this way firms can learn about popular products and successful campaigns. At the same time, it also gives insight in business practices of competitors. Firms not only learn from their own advertisements, but also from those of their competitors. This allows firms to gather

information that can be used to improve both the advertising and company operations (Jones, 2010).

Everything taken together, these forms indicate how digitalisation can benefit companies. This digitalisation is closely related to electronic business (e-business). E-business is the combination of communication (internet) technologies with management and business practices (Chatzoglou & Chatzoudes, 2016). In essence, it is the adoption of a digital strategy to match the technological possibilities. As such it takes a broader scope than e-commerce, which focusses primarily on online sales. It assists organisations in adapting to both consumers and the market environment. It achieves this by helping organisations understand customer needs, adopting market solutions and providing a platform for contact with customers (Chatzoglou & Chatzoudes, 2016). Therefore, it is not surprising that the adoption of e-business affects the marketing, management and strategic aspects of a firm (Bordonaba-Juste, et al., 2012). As it affects many different aspects of a firm, it is expected that companies will prepare themselves before investing in e-business. The main drivers for retailers to adopt e-business are according to Bordonaba-Juste et al. (2012) IT skills and perceived benefits. This is the case for retailers in European countries with a high level of e-commerce, as well as in European countries with a low level of e-commerce (Bordonaba-Juste, et al., 2012). Besides these organisational aspects, also the business environment in which the firms operate affects the adoption of e-business. All these forces that influence the adoption of e-business technologies can be captured in the Technological-Organisation-Environmental framework (Chatzoglou & Chatzoudes, 2016). This framework holds that technological, organisational and environmental dimensions capture factors that influence the implementation of e-business. This encompasses factors as internet skills, adoption costs and government support. In line with this, Durbhakula & Kim (2011) also find that the government can play an important role as facilitator to help businesses. The next section will go into digitalisation adoption by governments and how this can facilitate the adoption by businesses.

## 4.2 E-governance

### 4.2.1 National administrations

Digitalisation is influencing many different layers of society, including national governments that are increasingly adopting forms of digital governments. A digital government refers to a case where the use of Information and Communication Technologies (ICT) changes the interaction and connection between the government and society in a positive manner (Veit & Huntgeburth, 2014). From the 1970s onwards, governments increasingly recognised ICT as essential for public administration activities (Veit & Huntgeburth, 2014). The police and tax

offices increasingly stored information digitally. Over time also the number of services that are based on ICT have increased substantially.

In the 2000s, a new development started in the form of e-government, where more and more information and services for citizens are available online (Falk, et al., 2017). Following an initial phase where the main type of service was the provision of information, more recently online environments have also become a point of government contact for citizens. Today, the digital government is present in all processes that are associated with democracy: the process of law making, the operational actions related to enforcement and the work of the courts (Veit & Huntgeburth, 2014). Moreover, it is expected that the number of services that is offered online will further increase over the course of time (Falk, et al., 2017).

Regardless of the increased number of services that is offered online, there is still substantial ambiguity about the process through which governments adopt e-governance. In the literature there exist many different stage-based models on the development of e-governance (Lee, 2010). This hampers the development and analysis of the e-government, considering the use of different models and terms can lead to misunderstandings and hinders the general application of findings. Lee (2010) provides to create a single overarching model that combines the different concepts. This model contains five stages with metaphors that indicate the development phases: Presenting, assimilating, reforming, morphing and e-governance (Lee, 2010).

In the presenting stage the government simply makes information online available for citizens. This is a very limited and static stage. In the assimilating stage services are offered that before were offered offline at an office. This stage is characterised by simple digital interactions between a government and citizens and the integration of technology. In the third stage, the reforming stage, services that are offered at offices are reformed to match the online activities, in an attempt to increase efficiency. Citizens are now also able to perform transactions. This is, for instance, the exchange of an online document from the government in return for payment from a citizen, so there takes place an exchange of value. In addition, the technology is further streamlined. In the successive morphing stage, the real world at the offices and the online world have become intertwined to such an extent that the organisational structure and the mode of operations of the government needs to be restructured. New services that had not been available before will be offered online by the government. This leads to a transformation of the technology that is used and increases the participation by citizens. The final stage is e-governance in which the full ICT capacity is used to manage the relationship between the government and its citizens. Citizens can to a higher extent be involved in political decision making. The complete process with the different stages is shown in figure 3.
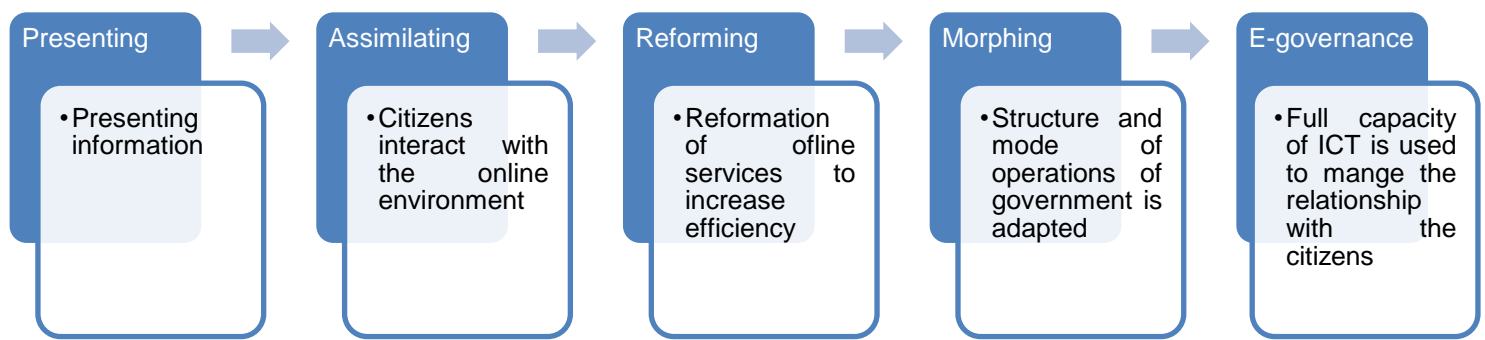
| Presenting | Assimilating | Reforming | Morphing | E-governance |
|---|---|---|---|---|
| • Presenting information | • Citizens interact with the online environment | • Reformation of ofline services to increase efficiency | • Structure and mode of operations of government is adapted | • Full capacity of ICT is used to mange the relationship with the citizens |

*Figure 3*. A stage-based model for e-governance development (Lee, 2010)

The creation and expansion of e-government services is by many seen as a positive development. This is underlined by the United Nations (UN), who examines the state of e-government worldwide every two years. The UN uses three dimensions to rank the countries on the so-called E-Government Development Index (EGDI): the capacity of the telecommunications infrastructure, the availability of human resources that can operate ICT and the availability of online services and content (United Nations, 2018). The EGDI indicates the capacity of national governments to deliver public services by means of ICT (United Nations, 2018). Out of the 28 Member States of the EU, 21 rank as having a very high EGDI level. A further seven (Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Romania and Slovakia) have a high EGDI level (United Nations, 2018). This suggests that the e-government in the EU is already quite developed. However, that does not mean it is complete. The ranking shows only how countries score relative to each other (United Nations, 2018). Therefore, the EGDI level shows that the infrastructure to offer services to citizens is in place; it does not indicate which services a country offers, nor the quality of the services.

As the use of e-government expands it might also have complementary effects besides lowering costs and increasing the quality of services. E-government has been shown to increase trust of citizens in the government (Tolbert & Mossberger, 2006). It improves the responsiveness of the government as several services are available around the clock. It can also increase the transparency as registers are kept online and more information is available to persons who are interested in it. Additionally, access to databases with laws and regulations, minutes of meetings, plans and contact information further increase the accountability of the government to the public (Veit & Huntgeburth, 2014). In a time of declining trust and reducing levels of voter turnout at elections, this may be very important.

The development of e-government not only affects citizens, it also has an impact on businesses, as it facilitates businesses to carry out tasks online instead of at government offices. Moreover, it provides businesses with information about developments in the market,

something which was more difficult before the widespread availability of internet. Most importantly, through e-government the government can also encourage companies to adopt online services and technologies. In this way, the government can facilitate the adoption of e-business by companies. This can happen through at least three ways. Firstly, e-government development sets an example for businesses and ensures that the government has the capacity or capability to set-up electronic projects (Durbhakula & Kim, 2011). These projects can encourage firms to adopt e-business by teaching them ICT skills. Secondly, e-governance makes citizens and firms more familiar and inclined to engage in online transactions (Durbhakula & Kim, 2011). It is not enough to create the infrastructure, citizens and firms also need to be aware of it and willing to use it. After all, providing a service is still distinct from using a service. When citizens and firms adopt the online communication methods to communicate with the government, this may also encourage them to further invest in ICT. Thirdly, the vision and policies of a government regarding e-government facilitate the adoption by firms (Durbhakula & Kim, 2011). The development of a long-term strategy regarding e-government signals long-term investments and stability. Also, it creates a market environment that favours the adoption of e-business, making companies more inclined to follow.

In conclusion, there appear to be two main ways through which e-governance affects companies. In the stage-based model of figure 3, the government starts by providing information to businesses. The successive steps show how the adoption affects the organisation of the government and its services. In the final stage, where the full potential of ICT is used, e-governance is also used to offer services to businesses and interact with them. However, this is not an exclusive one way effect. Governments will not move services to the internet as long as businesses and citizens are not willing to make use of it, whilst at the same time citizens and businesses are more inclined to invest in ICT when more services and activities are offered online. So in theory, there is potential for an upward movement in which both stimulate each other in the adoption of ICT based services.

### 4.2.2 The Single Digital Gateway

The EU recognises the large opportunities that e-government offers. Therefore, it has adopted several strategies to facilitate and assist Member States to adopt online services for both businesses and citizens. In 2002, for instance, the EU created the 'eEurope 2005' strategy, aimed at stimulating the development of online services and applications. At the same time, the EU promoted the availability of broadband internet in the Member States (European Union, 2010). Furthermore, it started to provide benchmarks so that good practices could be identified and emphasised, allowing countries to learn from each other. The strategy was positively evaluated in 2009 and showed that the strategy had facilitated

the dialogue between countries in the area of the information society (European Union, 2010).

In 2016 the eGovernment Action Plan was launched for the period 2016-2020. This plan encompasses different actions of the Commission. The Commission will, for instance, support the transition to e-procurement, support the development of cross-border eHealth services and digitalise transport documents. The aim is to further integrate the Digital Single Market, and guide the Member States in the process to prevent fragmentation. As a part of this strategy the EU Member States have agreed upon the creation of a SDG. The strategy regarding this platform is set out in Regulation (EU) 2018/1724 "Establishing a single digital gateway to provide access to information, to procedures and to assistance and problem-solving services." The SDG will be integrated into the already existing "Your Europe" portal. It will make the most important administrative procedures online available to all European citizens. This covers situations regarding studying, working and moving abroad. The overarching goal is that any procedure which is available to a citizen from one Member State should be just as easily accessible to a citizen of another Member State (European Council, 2018). The information should be available in an official language of the EU which is "broadly understood by the largest possible number of cross-border users" (European Union, 2018). It is interesting to note that not one specific language is mentioned in which the information needs to be available.

The services will be made available to the citizens in two distinct phases. The first phase ends in December 2020. By this date several information services should be available to all citizens of the EU. The services that will be made available by the governments include information on rights, obligations and rules under EU and national laws (European Union, 2018). For citizens this touches on several topics such as taxation in another Member State, moving to another Member State and making international payments. For businesses it includes among other things registering a business, terms of employment and acquiring licences. The focus in the first phase is on the provision of information regarding rules in a Member State towards individuals. This information consists of the most important topics for when a person is moving to another country. This will make it easier to complete all the procedures. For the reason that individuals will not have to search on governmental websites where to complete procedures. Instead, all of the information is gathered together in the 'Your Europe' platform. In theory, this will make it as easy to find information as it is in a person's home country.

In the second phase, which ends in December 2023, an extended list of services should be available online. The second phase includes enacting procedures such as applying for financing from public bodies (e.g. student loans), requesting personal pension data and registering a change of address. The second phase is intended to offer the

possibility for citizens to complete entire procedures with the authorities in a foreign Member State online. Furthermore, the 'once-only' principle should be in place by this time. This principle holds that individuals and businesses have to give their information only once to authorities within the EU for it to be accessible to public administrations of all Member States. So once a person has uploaded, for instance, his proof of residence in his 'Your Europe' account he can give access to this information to competent authorities abroad.

The Member States are currently working on meeting the requirements agreed upon in the regulation regarding the SDG. It is an ambitious plan and when implemented correctly, it can meet many needs of both citizens and entrepreneurs.


This chapter has discussed and clarified the influence of digitalisation on both businesses and governments. Thereby answering the second sub-question: In what ways has digitalisation affected SMEs and the government?

For SMEs digitalisation offers new opportunities to identify and reach out to customers, make sales to customers and collect information regarding the market in which they operate. In this way it is a useful instrument for the exchange of information between the businesses and customers. Therefore, it can be used in a similar way by SMEs to collect information regarding foreign markets. Moreover, the adoption of e-business is a clear example of the far-reaching effects of digitalisation. It is present in many aspects of the business and has clear benefits.

In a similar way, the digitalisation of government services has led to the adoption of e-governance. Governments have gone through successive stages in which the adoption of digital services has increasingly affected the organisation. In the final stage, a government has transformed into an e-government. While passing through the stages, there are two main ways how businesses are affected: by the provision of information and the increased availability of services.

The first benefit of e-government is that businesses can find information online. The second benefit includes interaction with public bodies, as businesses are able to request services and complete procedures online. This is also in line with the strategy of the EU, as set out in the SDG. This strategy can be divided in two phases: phase one focusses on the provision of information, whereas phase two concentrates on the availability of online services. With this programme the EU aims to support the Member States with the development of e-governance, whilst preventing fragmentation that would be created by different incompatible systems. However, there is also a third way in which e-governance affects companies. By adopting e-governance the government changes the environment in which companies operate and stimulates the firms to adopt e-business.

The analysis of digitalisation shows that SMEs use online methods to gather information about the market. At the same time governments increasingly use this method not only to provide information, but also to provide an instrument to complete procedures. Therefore, the supply and demand can be matched regarding information on foreign markets. By combining this with the SDG fragmentation among EU Member States can be prevented. The next step is to examine how these influences can effectively be combined and linked to the retail sector, to address the obstacles SMEs encounter in the process of internationalisation.

# 5. Combining the different elements

The previous chapters have analysed the main topics of this research. They have looked into the retail sector, internationalisation and digitalisation. The next step is to put these different components together to answer the final research question: How can digitalisation through information provision support retail SMEs in the process of internationalisation? To answer this question the main takeaways of the three chapters need to be revisited. This chapter will analyse the main points which have come forward in the research and put them together to address the main issues that SMEs face. Consequently, they can be combined into a single model.

## 5.1 Main points revisited

It has been shown that the retail sector within the EU is very extensive. It is a large sector which encompasses many different companies. These companies sell a wide variety of products ranging from essentials to luxury goods. As such it has a big impact on both society and the economy. Almost all of the companies (99%) within this sector are SMEs. Nevertheless, there are several factors that restrain the development of the sector. There are still significant differences in legislation regarding retail between the EU Member States. This results in a diverse market.

In a recent survey among 592 entrepreneurs in the EU, the complex administrative procedures and the different national rules were seen as large obstacles within the EU single market (Eurochambres, 2015). The complexity for the retail sector is captured within the RRI. The importance of addressing these restrictions is indicated by the positive correlation between the RRI and the level of consumer prices within national markets. The main component of the RRI for retailers that want to open a store is the establishment pillar. This pillar contains restrictions that companies face when starting a retail company in the country. These restrictions are captured in conditions and procedures that companies have to adhere to and follow. These restrictions cannot be completely avoided by selling products online through e-commerce. In Germany for instance there is a requirement that firms need to have a local website, which in turn means that retailers need to have a physical location in the country (European Commission, 2018c). There are ways to circumvent this, for instance by selling through a third-party platform like Amazon. In this situation these establishment requirements are avoided. Requirements regarding a physical location are not in place in all of the countries. However, companies that sell though e-commerce still have to meet the requirements of the operations pillar of the RRI. This includes issues such as retail taxes and following the rules regarding sales periods. Better or more easily available information about the different procedures and obligations that exist in the EU Member States would thus undeniably be of added value to understand the complexity of the retail market.

In the chapter on internationalisation it became apparent that the process of internationalisation for SMEs differs from larger companies. They have limited financial capacities and a smaller workforce. Because of these limitations, they are less able to follow market developments closely. More importantly, because of their limited resources an unsuccessful attempt to internationalise will have a large impact on the company. Therefore, it is essential for retail SMEs to enhance their rate of success, or make them not engage in attempts to internationalise when the chance of success is low. To accomplish this, SMEs need to be aware of the most common obstacles in the process.

The obstacles can be summarised in categories of factors. The categories of factors comprise the management, resource and information obstacles. Not all of the factors within these categories can be easily addressed by governmental actors. After all, part of the success of internationalisation depends on the internal quality of a firm. The management category, for instance, contains a 'pro-active strategy' of the management team. This strategy is related to the skills that managers have developed over time, and also to their personality. This is difficult to influence and change. So the management category includes different factors which are deeply imbedded in the firm itself.

The fact that managers may lack the skills and qualities to support successful internationalisation are partially the result of the limited finances of SMEs. SMEs do not have the resources to hire highly qualified managers or to invest in extensive training programmes to improve managerial skills. This clearly can have an impact on the internationalisation process, as a higher level of education of entrepreneurs positively influences the performance of SMEs (Tsambou & Esone, 2016). Moreover, as there are many different firms within the retail sector, which sell different products and have a different business strategies, training programmes need to be tailored to the specific needs and conditions of different companies.

The third category, containing the information factors, appears to be the best suited to be addressed by the government. For instance, governments can lower the complexity surrounding the entry of new firms providing information on market characteristics and rules and regulations. It could provide more information that would help a company to assess whether the market is the right choice for the company, or that it should focus on another market. In this way, the chance that firms fail in their entry of (new) markets would decrease. However, markets are very complex structures which are difficult to be captured in a single model. Therefore, governments should try to focus on those aspects that are most important for the majority of the companies, rather than trying to cover all possibly aspects. Therefore, regarding all of the categories of obstacles, information provision to the SMEs would be most of added value. This will make firms both aware of the challenges they may face with internationalisation and whether they will be able to meet them.

The internet is a good medium to provide firms with the required information. Nowadays, all companies have access to the internet, regardless of their size. As especially small firms often do not have the knowledge and resources to conduct extensive market research, the internet offers a wide range of possibilities. The internet and ICT are important for SMEs, as it can change and improve their business strategy and provide them with a platform to exchange information (Loane, 2006). The impact of this information has been stressed in the previous chapter, showing that the flow of information goes both from the SMEs to consumers and the other way around. This is then harnessed in e-business. In turn, this can be enhanced by developing e-governance, with an accompanying long-term strategy. The key advantage of e-governance lies in the improved accessibility of information and the extensive spread over the EU. Furthermore, it also provides firms and citizens with an interactive tool to complete procedures. Its current weakness is there are many different national systems in place that are not fully compatible. Therefore, companies do not know where to find information and the information that can be found often differs in the number of topics it covers. The Commission aims to increase the homogeneity of the different systems by creating an EU wide framework. It further aims to support the development of e-governance, and the online support for both companies and citizens, by creating the SDG.

The main conclusions from the previous chapters hold a promise of enhancing the success rate of SME retailers that cross borders into new markets, thereby creating a better integrated EU retail market. The main research question can thus be answered in the following way: Digitalisation can support retail SMEs in the process of internationalisation by lowering the complexity of the market. The complexity is lowered by providing the businesses with information regarding the foreign market, addressing the internal limitations of the companies and offering points of interaction with authorities. E-governance appears to be a useful tool to provide this information and offers means of interaction with governmental authorities. Consequently, the three components can be combined into an overarching framework.

## 5.2 A model for internationalisation

The findings in the research can be incorporated into a model which effectively focusses on the obstacles SMEs encounter. This model consists of three phases. The first two phases precede the actual process of internationalisation; in the third phase the company starts the process. However, companies do not always consciously choose to internationalise. A firm might start selling products in a foreign market through a third-party platform which is also used by customers abroad. In this way a company unintentionally enters a foreign market. Nevertheless, these are in general more chance incidents than part of a strategy. As such it does not give the company a strong market position. The model, on the other hand, focusses

on intentional internationalisation to enter a new market. It addresses both the choice of the right market and the method of expansion. Focussing on one method of expansion does not exclude the other method altogether. Over time, the method can change and different methods can also co-exist next to another. Nevertheless, companies are expected to focus initially on one method, as each method puts different requirements on a business. The complete model is shown in figure 4.

The process of intentional internationalisation can be divided in three phases. The first phase consists of gathering information on the different foreign markets. The completeness of the online information is of vital importance, as available and missing information has an impact on the internationalisation process (Peschken, et al., 2016). This is in line with the previous establishment of an information category which covers several factors that can become an obstacle to the internationalisation process. The most essential information that needs to be gathered is market information. This includes reports with statistics, figures and information related to the specific products that the firm wants to bring to the market. This information can be both general and detailed. General market information is often provided for by governments and government-affiliated research institutions. Specific information (e.g. about products) is more difficult to gather. This is often provided at a cost by commercial firms and other private actors. Also, information provided by the SDG can be seen as part of market information. The SDG can provide companies with general information regarding, for instance, registering a business and VAT. In this way it will disclose the most important information about starting a business in a Member State.

The first phase in the model also aims to unravel the complexity of the retail market in the Member States, by providing specific information of the retail sector. This is achieved by disclosing information about the RRI. This has multiple advantages. The first advantage of providing firms with information regarding the RRI is that it offers a tool for comparison. As the aim of the model is to support retailers in expanding across borders, it can be assumed the retailers are already active in their own country. With the RRI, firms can compare their home market with other markets. As such, the companies can identify aspects that they have to pay special attention to and it gives them an overall idea of the complexity of the markets. The second benefit of providing SMEs with information on the RRI is that it provides a first indication on whether they should focus on FDI or export as ways to enter foreign markets. As extended upon above the establishment pillar mainly applies to opening a physical store, and the operations pillar to export in the form of e-commerce. If a country, for instance, has many specific taxes and fees in place for retailers, then e-commerce might be more beneficial (as retailers only have to register to pay VAT in a Member State if the total value of the imported goods reach a certain threshold (European Union, 2019a)).
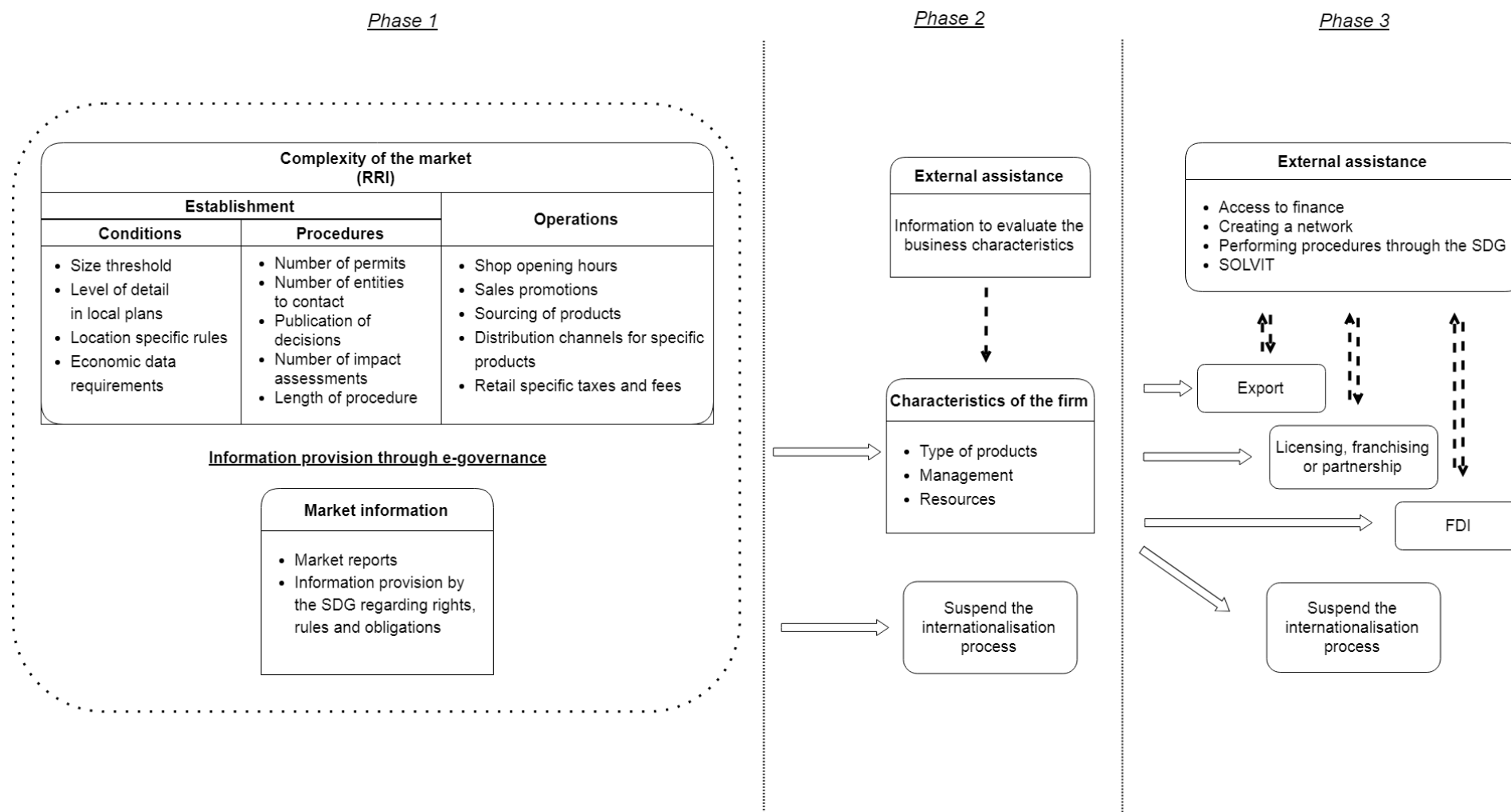
*Figure 4.* Model for supporting SMEs in the process of internationalisation through e-governance

After revising the information that is made available in the first phase, a number of companies are expected to suspend or stop the process of internationalisation. This is not due to the quality of the information, but because a large number of businesses will become aware of the challenges that come along with the process. Not all SMEs will be able or willing to try to meet these requirements. For the companies that continue with the process the second phase is a self-evaluative process. A firm has to combine the information it gathered about the market with the characteristics of the firm. The most essential for the firm is to evaluate if the products it wants to sell fit the foreign market and whether there are specific restrictions in place for sales of the products. Besides this, the obstacles regarding the resource and management categories are examined in this phase. The firm has to examine whether it has the resources to take the measures that are required to enter the foreign markets. If these resources are limited, it might be more beneficial to start with exports instead of FDI.

Attending to the managerial obstacles is more difficult, as this requires them to do a critical evaluation of their own capabilities. Not all managers are able to do this, especially if they are unaware of the challenges that come with the process of internationalisation. Therefore, the government could, for instance, provide support for companies to assess their capabilities. Another part of the management category is a strategy for the firm. Businesses have to be encouraged to develop a long-term strategy for the internationalisation process. As expanding across the borders will not immediately deliver increased returns, SMEs have to be aware of the downsides and be prepared for negative events. Especially as SMEs have limited resources, a good preparation is essential. Governments can support the development of a business strategy by making available information and examples of how to do this. Supporting the companies, by providing them with instruments to assess their capabilities and to develop a business strategy, has an advantage over giving them a fixed or pre-set business strategy. In this way, the business strategy has to be worked out by the entrepreneurs themselves, and as such is tailored to their specific needs.

After going through the second phase, again there will be a number of companies that decide not to proceed with the process of internationalisation, as they have discovered not to be able or willing to meet the necessary requirements for successful internationalisation. The companies that continue with the process in the third phase have to decide on the method of internationalisation. At this stage, they should have gathered enough information to be able to both identify the right market and decide whether to enter the new market by export from the home market; licensing, franchising or a partnership; or FDI.

In general terms, all of these methods of expansion across borders can be supported by national governments. Governments can provide subsidies to supplement limited

resources and training courses for the management team to improve relevant skills and capabilities. At the same time the government is limited in the financial contributions it can make, due to EU regulations that prevent unfair competition. Member State governments are not allowed to support particular sectors, but they are allowed to give broad support. Thus, governments are not allowed to give retail SMEs financial support to internationalise, but they can provide subsidies for management training to SMEs in general. Moreover, national governments can improve access to finance for SMEs. They can provide an overview of general national subsidies that apply to the situation of SMEs and of the European programmes that support internationalisation EU wide.

The government cannot offer support to all of the SMEs. The main reason being that to offer courses and subsidies the government makes a financial investment. Independent of the investment being a loan or gift, the government is willing to make this investment when in the end it receives something in return. When SME makes sales abroad, the money from these sales will partially flow back to the home market. This leads to economic growth and thereby the government benefits indirectly from the internationalisation. However, if an internationalisation attempt is unsuccessful the government has lost its investment. Therefore, they need to create criteria to help them select those companies that are best suited to be helped. This means that it also has to exclude companies. Another, less disputed, support measure is to help companies to expand their network in a new market. Previously it has been mentioned how a business network supports companies when entering a new market. It can provide valuable contacts and also offer practical support. This will be discussed in more detail in the next chapter. Additionally, the SMEs need to complete procedures when entering a new market.

For all methods of expansion, companies need to register with the (local) government. The SDG wants to make several of the procedures available online. Through the 'once-only' principle, businesses can retrieve information they previously put in the system. They can use this information (e.g. proof of identification) to complete the required obligations in a country. This is a very advanced way of e-governance, in which the mode of operations of a government is adapted to the possibilities ICT offers. Finally, even when businesses meet all of the obligations the authorities may refuse them to enter the market. In this case they need to be able to challenge the decision of the authorities. As this concerns cases with a cross-border aspect SOLVIT can assist the companies when their rights are breached by public authorities. SOLVIT is an informal dispute resolution network of the EU. It is created to support, through informal co-ordination between Member States, both consumers and businesses when they feel that the single market rules have been misapplied (Egan & Guimarães, 2017). The advantage of SOLVIT over national authorities is that the threshold to challenge a decision through this platform can be lower. It can be seen as an

impartial party to the conflict. Moreover, it aims to find a solution within 70 days and has an average resolution rate of 84% (Egan & Guimarães, 2017). Therefore, companies should be informed about the possibilities this network offers.

Throughout the whole process it is essential that information is provided in an understandable and easily accessible manner. E-governance offers a wide range of promising tools to meet these requirements. Information could be offered in a similar way as the SDG, as part of the European 'Your Europe' platform. In this way businesses do not have to search the internet for websites in each individual Member State. Also, it serves as a guarantee of the quality of the information. Information would also be accessible throughout the EU as it is distributed online and it could be made available in multiple languages. E-governance tools are especially useful for information provision in the first and third phase. In these phases information should be easily accessible for businesses.

It is important to stress that setting up awareness campaigns about the provision of the information is beyond the goal of the platform itself. The goal is to support SMEs that want to expand across borders, not to stimulate SMEs to internationalise. This small difference is essential. There are millions of SMEs within the EU and the majority is not considering or able to internationalise. Companies are only interested in the information when they feel they are ready to expand. By providing information, firms can look into the requirements and make the decision whether they are ready for the next step. If companies decide to internationalise e-governance in the third phase offers the possibility to complete procedures online. The procedures become better accessible in this manner. Moreover, e-governance encourages both firms and individuals to use ICT. For firms, this will have the beneficial side-effect of stimulating e-business tools and prepares them for modern competition requirements.

In the first part of this chapter the main research question was addressed: How can digitalisation through information provision support retail SMEs in the process of internationalisation? It became clear that digitalisation in the form of e-governance offers a wide range of possibilities to provide retail SMEs with the required information regarding internationalisation. This information covers many of the obstacles that retailers may encounter. Furthermore, e-governance offers a way for businesses to complete procedures online, unravelling the complexity of the market.

In the second part of the chapter the findings were put into a model which encompasses the different phases and paths that retailers can take. It aims to prepare the retailers for internationalisation, and make them aware of their shortcomings, helping them to make use of the right method of internationalisation. As such the model can be used by policy makers at the national and European level to support SMEs that want to

internationalise their operations. In this way a next step can be taken towards a European market without internationalisation, a complete internal market.

# 6. Recommendations for implementation of the model

This thesis has shown that it is not only disparities in legislation between countries that hinder internationalisation, but also the overall complexity of the international market. This complexity is linked to differences in procedures and culture between the Member States. This further underlines the importance of assistance during the process of expanding across borders. Hutchinson et al. (2006) suggested furthermore that the general nature of internationalisation programmes should be adapted to the needs of retailers. At the moment, this support for retail internationalisation is lacking in many countries such as the United-Kingdom and Spain (Gardó, et al., 2015; Hutchinson, et al., 2009). The thesis has also shown that such assistance should be further adjusted to the characteristics of firms of different sizes. In particular, within the group of retailers, the needs of SMEs differ from those of larger companies. Therefore, retail SMEs are in need of specific guidance during the process of internationalisation. Within the framework of the current model the goal is to support these companies. Subsequently, the model offers tools for SMEs to tackle the obstacles they meet, by assessing their internationalisation capacities and offering support during the process itself. For the model to have a significant impact different actors should take action. This chapter goes deeper into the different actions that need to be taken, for each of the different phases of the model.

## 6.1 Phase 1

A vital point of action during the first phase is to deal with the complexity of the foreign market. Providing businesses with information about the RRI will help them to better understand the market they are planning to enter and the requirements that come with it. An additional advantage of publishing the Member States RRI scores is that it will put pressure on the national governments to adjust the restrictions that are in place. It does this in a similar way as the Open Method of Coordination (OMC). The OMC is an intergovernmental form of policy making in which countries are not obliged to make adaptions. Instead, it provides a context in which policies of different Member States are compared, evaluated and placed in the perspective of achieving goals of a larger framework (European Union, 2019b). This method enables the EU to enter new policy domains, in which the Member States believe there is no place for legislation on the EU level (Bulmer & Radaelli, 2005). So instead of creating actual rules and legislation, this method relies on comparison and benchmarking. It relies on the assumption that no government wants to compare poorly with other Member States and for this reason makes adjustments to its policies. The RRI works in a similar way, by ranking the Member States on the level of restrictions that are in place for the retail sector. In this way, the RRI identifies areas in which Member States can improve, and shows best practices that exist within the EU (Dominguez-Torreiro, et al., 2018).

Even though the RRI gives a factual overview of the level of restrictiveness in a country, it falls short of being completely comprehensive. It has taken a number of indicators that reflect the overall restrictiveness, but there are many other requirements that are not included in the RRI. Leaving out some of these indicators might lead to a higher external validity of the model. However, the exclusion of some indicators also means the retailers will not be informed of other restrictions that are in place. They are thus less aware of other possible obstacles. This can be seen as a shortcoming of using the RRI to create fully informed SMEs. Everything taken together, the inclusion of the RRI in the platform will both create bottom-up pressure from the retailers and top-down pressure from the EU on the national governments. This might lead to adaptations in national legislation to make the national retail sectors more easily accessible for new companies.

Next to the RRI, also other market information should be made available for the retailers. This includes information on the rights, rules and obligations of companies, as well as general market information in the form of reports. The main goal is to increase the transparency of the sector. In this regard, it should be noted that the Member States are obliged by EU law to make general information, relating to access to the retail sector, available. Article 7 of the Services Directive obliges Member States to make the following information easily accessible: "requirements applicable to providers established in their territory, in particular those requirements concerning the procedures and formalities to be completed in order to access and to exercise service activities" (European Commission, 2006). As the ECJ in *Visser Vastgoed* has recently ruled that retail is a service, this effectively means that the Member States have the obligation to make the information easily accessible. This could thus be seen as a justification for the creation of an online information platform that brings together the requirements relating to the retail sector.

The most effective way to disseminate this information to retailers is through e-governance. In the previous chapters it has been established this e-governance is very promising, as it is easily accessible and stimulates companies to invest in e-business. The next step is to assess at which level, the national or European, this information should be provided as both have their advantages and disadvantages. National governments are the best informed about their legislation, benefit from sales made abroad and retailers will most likely first look for national assistance during the process. However, the main risk of relying on national governments is that information provision is dispersed and that there is no coherence between the different countries. As the SDG will be incorporated into the 'Your Europe' portal, this will be the point where information regarding rights and rules will be provided. It would then be a logical step to also add the remaining information on other issues to this platform. Thus, the information should be provided by national governments on the European 'Your Europe' platform. This will create the situation where the institution with

the most knowledge will provide the information. At the same time it will be provided in a coherent way, from a single point for the whole of the EU. The national governments can further assist companies within their countries to find information by creating links to the platform on national websites.

## 6.2 Phase 2

After collecting and processing the information in the first phase, some retailers are expected to suspend the internationalisation process, as not all of the businesses will be ready or willing to expand across borders. The companies that believe they are ready to take the next step towards entering a foreign market need to apply the information they learned to the characteristics of their firms. Some information, as for instance the number of permits, will have to be implemented in different ways, depending on the products the firm wants to bring to the market. The use and implementation of the information will be done by developing a strategy to enter the foreign market, for instance in the form of a business plan. The quality and extent of this business plan will partially depend on the resources and management qualities of a firm. Governmental actors can offer supplementary support to the creation of the business plan. They can make available instruments to evaluate resources and management capabilities. Furthermore, it can provide companies with information and examples on how to write a business plan. This business plan can later be used as a prerequisite for receiving funds of the government. This is in line with the findings of Gardó et al. (2015) who divided the retailers in two categories: companies that can demonstrate that they have the competitive ability to achieve their objectives of internationalising, and companies that do not have this potential yet. These two categories of companies are in need of different support. The goal of this distinction is to support financially only the organisations that have a realistic chance of achieving their aims.

## 6.3 Phase 3

Again, some companies will suspend the internationalisation process after combining the gathered information with the characteristics of the firm. They will realise that at the moment they are not ready to take the next step. The remaining companies will have to make a decision on the method of international expansion: export; licensing, franchising or partnership; or FDI. This is dependent on both the characteristics of the firm and the possibilities in the market. Again, several forms of external assistance can be provided here.

In this phase, SMEs will be able to apply for subsidies to supplement their resources. Many national governments offer financial support to SMEs in the form of subsidies. Next to this, the EU also has a programme in place to support SMEs that want to internationalise. For the period 2014-2020, the EU has created a programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME), to support SMEs gaining

access to financing (European Commission, 2019f). This is an overarching programme with many different schemes under it. The Loan Guarantee Facility and the Equity Facility for Growth, for instance, facilitate access to loans and equity funding. In this way it supports the competitiveness of SMEs, among other things by promoting their internationalisation. Another relevant part of COSME is the Enterprise Europe Network (EEN). This support network helps SMEs to innovate and grow on an international scale (European Commission, 2019g). It brings together over 600 member organisations from all over the EU. Individual businesses cannot become a member. Nevertheless, they can receive advice and support by going to a local contact point. Local contact points help businesses come in contact with partners in another country and give advice for international growth. As such, it supports a business with its international network, which was earlier identified as an important factor influencing internationalisation. Thus, the use of this network is expected to be of added value to the firms.

Additionally, the SDG is planning to make it easier for companies to open a business abroad, by enabling firms to perform procedures through the SDG. This will have many practical benefits, for instance that the procedures can be carried out from the home market. In theory this will make the foreign market just as accessible for entrepreneurs from other Member States as for national firms. To ensure the functioning of the platform it will need to accept payment methods that are common in cross-border situations, accept electronic evidence and accept electronic IDs from other Member States (European Commission, 2017). However, as there are currently already many problems with digital IDs within Member States it is not clear whether this is realistic.

Finally, the SOLVIT platform can also help SMEs that encounter problems while going through the different phases and the process of internationalisation. As an informal dispute resolution, it offers additional ways to resolve problems. As it aims to solve these disputes within the relatively short time span of 70 days, it is a useful first point of contact for firms. The Commission is aware of the connection between, and added value of SOLVIT, to the SDG. Therefore, as part of its strategy of the SDG, the Commission is planning to strengthen SOLVIT to increase its effectiveness (European Commission, 2017).

## 6.4 Remaining issues

Besides the advantages, disadvantages and roles of parties as extended upon above there are a couple of remaining questions and difficulties. One of these questions concerns the disparities that exist within the EU. A well-known problem within the EU is that lagging regions have troubles with accessing EU funds. The funds are available for these regions, but the regions lack both the knowledge about the existence of the funds and the skills to obtain them. A similar hazard exists for the information that will be made available through

the model. The current results have shown again how access to information and knowledge about the market is vital for the development of businesses, and especially for SMEs. However, there are large disparities between regions within the EU regarding their knowledge-based activities (Cooke & Schwartz, 2008). These disparities are expected to widen even further over the course of time (Cooke & Schwartz, 2008). This poses a problem as the importance of reaching the SMEs in all regions should not be underestimated. Some SMEs in outer regions sell products which might be very interesting for consumers from other states. Or these might be situated close to the border, so close to another market. At the same time, there is a large diversity between the companies in the EU. This holds a promise of discoveries that come to the market as commercial innovations. However, the companies in these peripheral regions might overestimate the difficulties of entering a foreign market. SMEs will only look beyond the national market when they consider themselves ready for this. Through the information platform they will be able to test these assumptions. The challenge is to offer all of these companies the same possibilities by giving them access to the information they need.

In line with the above there is the question of promotion and the spread of the information among SMEs. In the previous chapter it was mentioned that the main goal is to support SMEs that want to expand instead of stimulating SMEs to internationalise. Nevertheless, the Commission might want to promote the internationalisation of SMEs in general, to stimulate the integration of the internal market. As SMEs comprise such a large part of this market, it would be a relevant target group. On the other end of the spectrum, however, lies the risk of encouraging companies to internationalise before they are ready for this. An attempt to internationalise brings uncertainty and challenges, and not all of the SMEs are willing and able to meet these. In this case there is a serious hazard of failure, and thus a threat to the very existence of the SMEs. Besides, even if there is the intention to reach the companies that are ready through promotion, it is difficult to determine the characteristics of the target group. The majority of studies analyse companies that start the internationalisation process, and not companies that focus only on the national market. This makes it difficult to define the features of the right target group and thereby make a distinction between these two groups. Moreover, international expansion is not always part of a pre-determined strategy. It is often a reaction to opportunities and events in the international market (Hutchinson, et al., 2006). So the management of companies might not even be aware they are able to expand across borders. Despite of these arguments EU wide promotion of the model is recommended. After all, one of the main goals of the information provision is to help SMEs to judge if they are ready for a next step. So the model has safeguards to protect the SMEs against internationalising too early, as information provision to assess their capacities and requirements that need to be fulfilled to receive subsidies. With the model they will be

better suited to evaluate their current situation and the needs that come with internationalisation. As such there is not a risk of promoting internationalisation, it just creates awareness of the opportunities and risks that are associated with the process. From both the EU and the national perspective the primary priority should therefore be for the information to be promoted and available to all companies. The fundamental point is therefore accessibility of information. This could be achieved by linking it to the 'Your Europe' platform. As the companies can also complete procedures on this platform it would be a logical extension to make this the main contact point, on which the businesses can find relevant information on the process and steps.

Finally, a way has to be found to protect SMEs against an information overload. The tendency with online information provision might be to post all of the available information. However, excessive information has a negative effect on its usefulness (Koltay, 2017). This is especially the case for SMEs as they have limited resources and lack time to assess it all. To counter this it is of primary importance that information is provided in a findable and well-structured format (Koltay, 2017). In line with this is the question of responsibility. Who will be responsible for incorrect information? If outdated information is provided the fault can be with either the national government, which put the information online, or the Commission, who is responsible for the platform itself. Therefore, it is important that there are disclaimers and there is clarification on the consequences that arise from default information.

Many retail establishment procedures are in practice long, complex and lack transparency (European Commission, 2018c). The current model aims to tackle the problems related to this by providing information. The key point is to help SMEs to assess the opportunities in the market and combine this with the characteristics of the firm. For this purpose there are different aspects that complement each other in such a way that it would lead to successful support. At the same time it came forward that most likely not all of the information will be covered by the RRI, and the model. Nevertheless, because of the big differences within the retail sector it is nearly impossible to cover all of the information to the smallest detail. Besides, if all aspects were completely covered this would come at the expense of the structure. Thus, it is vital that the main points are covered. For additional information separate solutions can be offered.

All of the information that is provided can be connected by e-governance through the 'Your Europe' platform. This is preferred over separate national websites, as the information needs to be findable and structured for the whole of Europe, instead of being dispersed over different Member States. To this purpose the national governments and bodies of the EU need to work together. Only if all these points are addressed can we start talking about a fully integrated EU market without internal borders.

# 7. Conclusions

## 7.1 Conclusions

To sum up, this research has aimed to explain how digitalisation through information provision can support retail SMEs in the process of internationalisation. It has first discussed the retail sector within the EU and the obstacles that retailers encounter when crossing borders with any of the internationalisation methods. It became clear how the retail sector plays an important role in the European economy. It is highly regulated to protect both consumers and the business environment. The EU competences over this sector have recently extended, as the ECJ classified retail as a service. At the same time the EU has published the RRI to map the regulations that are in place. Within the RRI it came forward that there are large disparities between the Member States regarding the regulations. These differences make it a complex sector that is difficult to understand for SMEs. Nevertheless, in the globalised world of today also SMEs increasingly cross borders to other countries. Technological progress has closed the physical distance to foreign markets. Therefore, businesses look beyond this, to the characteristics of the market and especially to the regulatory framework of a foreign market.

In the process of internationalisation the retailers run into many different factors that become obstacles to the process. The first research sub-question identified these obstacles and how these can be classified in three overarching categories. These three categories are: Management factors, resource factors and information factors.

The second research sub-question aimed to identify the ways in which digitalisation has influenced the government and the business strategy of SMEs. Digitalisation directly affects SMEs by providing access to new information about the market. At the same time digitalisation, in the form of e-governance, offers SMEs new ways to interact with the government. For governments e-governance offers possibilities to provide information, make a number of services online available and stimulate firms to adopt e-business. This makes e-governance a useful instrument to address the internationalisation obstacles in an effective manner.

Putting the answers to these two sub-questions together gives a basis on which to build a model to address the obstacles SMEs encounter. This model (figure 4) shows which information needs to be provided to the businesses and in what phase of the process. This information can be provided by a combination of actors at the national and European level. Thus, the answer to the main research question is the following: Digitalisation can support the SMEs by lowering the complexity of the market. This is done by providing firms with information regarding the requirements in the foreign market, creating awareness of the internal limitations of the company and offering support during the process. E-governance is

the right instrument for these aims as it is widely distributed, easily accessible and stimulates companies to adopt e-business.

It can be concluded that the implementation of the model would address all of the categories of obstacles SMEs currently meet in the process of internationalisation. First, their limitations regarding their managerial capacities are partially countered by additional support. This will both help them to create a business plan to expand across borders and to create awareness about their own limitations. Second, their resources can be supplemented in the form of subsidies and their network is broadened through EEN. Third, the implementation of the model provides information that lowers the complexity of the market, as the retailers are more aware of the legislation in the new market. At the same time this puts pressure on the Member States to change legislation and further integrate the market.

## 7.2 Discussion

The findings of this research offer an interesting contribution to the literature and give policy makers a model to work from. This research analysed the specific obstacles that SMEs encounter, a group that has been neglected in most of the literature. While large companies are often the unit of analysis it is important to also look into SMEs. Especially as these companies make up for the majority of all active firms in the EU. At the same time this research has looked into ways to use digitalisation to support companies in the retail sector. The benefits of the SDG in general have previously been defined at the EU level, but only in general terms and not from a sector perspective. The aim was to fill this gap to see if there is added value in tailoring it to the needs of a sector. Finally, it offers recommendations for policy makers. This is of importance as these recommendations are currently often lacking in research (McAuley, 2010).

Though this research fills some of the existing gaps, also some limitations must be noted. The first limitation is that the RRI only captures regulations and not restrictions created through private actors (Dominguez-Torreiro, et al., 2018). In reality, private actors influence the economic landscape and create restrictions for companies that enter the market, even though this practice is often illegal. An example is territorial supply constraints (TSCs). These are vertical prohibited territorial restrictions that manufacturers put in place when selling to wholesalers and retailers (European Commission, 2018c). These TSCs can take the form of manufacturers limiting the quantities of sale to prevent resales, or manufacturers forbidding wholesalers to sell across borders. A recent example is AB Inbev in the Belgium market. It supplied companies in the Netherlands and France with monolingual labels, avoiding imports into Belgium, where labels need to be bilingual. At the same time it limited its sales to wholesalers located near borders, to prevent it being resold to Belgium firms. These restrictions by private actors that shield their market can constitute an obstacle

for retail SMEs that want to enter the market. However, as these restrictions are often unlawful it is difficult to include these in a model.

A second limitation is related to the methodology of this research. Instead of approaching retail SMEs for interviews, data was gathered by means of a reviewing of the literature. Interviewing SMEs would have added value as the questions would be more tailored to the specific research questions. This would, also, offer possibilities to control for variables that can influence the results. Nevertheless, because of several reasons the choice was made to use secondary sources. First, as retailers are such a diverse group there is a need to study many different companies. This requirement, combined with the added value of qualitative data instead of quantitative data, made that it is not realistic to complete this within the time period available for the research. Yet, by combining many secondary sources this broad range of companies can be studied. Second, with the current method this research is able to take a more European perspective. It includes studies that cover different countries. In this way the developed model addresses the needs in different Member States. Third, the literature research made it apparent that different studies identified different obstacles, although, when these obstacles are compared with each other, they appear comparable and often overlap. This is a problem partially related to qualitative studies, as the conceptualisation is of an explorative nature. By basing the current research on multiple studies it takes an overarching view, categorising obstacles that cover several different factors.

A third limitation is the limited feedback of SMEs to the government in the model. To fine-tune government support to the needs of the companies, they will need to receive feedback. This is not included in the model as governments currently do not have the capacity and infrastructure to deal with all of this information. This would be very diverse information and therefore first there has to be found a way to process this. Nevertheless, the added value of this feedback should not be underestimated. It can draw information from a large variety and number of companies, for instance by making the completion of a questionnaire a condition for receiving subsidies and training. Moreover, this way of gathering information would identify restrictions by private actors. Gathering information from SMEs is in line with Gardó et al. (2015), who stated that understanding how SMEs have overcome the obstacles they encountered during internationalisation will help organisations to design programmes for support. Thus, it would be of added value for a government to find a way to collect and process this information.

## 7.3 Future research

This research aims to fill gaps in the existing literature. Nevertheless, there are many remaining questions that need to be addressed in future research. First, the created model

needs to be applied to real business settings. It has to be established to what extent the model applies to SMEs in different Member States and whether the categories of factors cover all the obstacles. At the same time it can look into the added value of information provision regarding the RRI. It has to be established whether the provision of information about the legislative framework in a country lowers the complexity of a market. If this turns out to be the case then it can be expanded. More information can be included and similar information about legislation can be made available for other sectors. Second, most research currently looks only at the internationalisation process of companies that start expanding across borders. Nevertheless, there is valuable data available in comparing these companies with SMEs that focus on the home market. This will help to identify the differences in characteristics between the two groups of SMEs. In this way the whole process of the creation of a company to internationalisation can be outlined. Third, future research needs to take a new perspective. Instead of approaching the obstacles from the business perspective, there is need for a shift to the perspective of policy makers. There have been made recommendations on how to support SMEs during the process of internationalisation. Now there is a need to look from the governmental perspective how this can be done and optimised. It could at the same time explore ways to receive feedback from the SMEs on the internationalisation.

The European project is, after more than 70 years, still far from finished. The EU is constantly moving forward, and backward, regarding further integration of the Member States. An important part of this project is the EU Single Market. This research aimed to offer a framework to assist policy makers and stimulate further unification of the Single Market. This will especially benefit SMEs, as these have limited possibilities to look into internationalisation. This group deserves support, as SMEs still make up for the largest part of the economy. Only when these companies are at the centre of policies will the many benefit.

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