Management Issues – Problemy Zarządzania, vol. 16, no. 1(73) part 2: 91–108
ISSN 1644-9584, © Wydział Zarządzania UW
DOI 10.7172/1644-9584.73.6

Institutional Barriers of the Internet-Based Foreign Expansion of Enterprises

Submitted: 17.08.17 | Accepted: 05.02.18

Marzanna Witek-Hajduk*, **Bartosz Targański****

Since the 1990s, growing attention has been paid to the utilization of the Internet in the firm internationalization (Internet-based internationalization) and factors determining the adoption of the Internet in the foreign expansion of enterprises. The purpose of this paper is to provide a systematic review of the literature addressing institutional barriers of the Internet-based foreign expansion of enterprises. After the collection and refinement of publications on this topic, descriptive and thematic analyses were applied to discover the existing research streams in the literature and key institutional barriers of the Internet-based foreign expansion. The study contributes to the field of management and international business by summarizing the existing studies and proposing research opportunities.

Keywords: institutional barriers, Internet-based foreign expansion, internationalization, cross-border e-commerce.

Instytucjonalne bariery zagranicznej ekspansji przedsiębiorstw przez Internet

Nadesłano: 17.08.17 | Zaakceptowano: 05.02.18

Od lat dziewięćdziesiątych coraz większą uwagę zwraca się na wykorzystanie Internetu w internacjonalizacji przedsiębiorstw oraz na czynniki determinujące zastosowanie Internetu w zagranicznej ekspansji przedsiębiorstw. Celem artykułu jest systematyczny przegląd literatury nt. barier instytucjonalnych zagranicznej ekspansji przedsiębiorstw przez Internet. Po zebraniu i uporządkowaniu publikacji, za pomocą analiz opisowych i tematycznych przedstawiono nurty badawcze w literaturze i kluczowe bariery instytucjonalne zagranicznej ekspansji przez Internet. Badanie wnosi wkład w zarządzanie i biznes międzynarodowy, podsumowując istniejące badania i przedstawiając obszary badawcze.

Słowa kluczowe: bariery instytucjonalne, internacjonalizacja, zagraniczna ekspansja przez Internet, transgraniczny handel elektroniczny.

JEL: M16, F23, K20.

* **Marzanna Witek-Hajduk** – Associate Professor, Department of Internationl Business, Institute of International Management and Marketing, Warsaw School of Economics (SGH).

** **Bartosz Targański** – Doctor of economics, legal counsel, Department of Internationl Business, Institute of International Management and Marketing, Warsaw School of Economics (SGH).

Correspondence address: – Marketing Strategy Unit, Institute of International Management and Marketing, Warsaw School of Economics (SGH), Madalińskiego 6/8, 02-513 Warsaw; e-mail: marzanna.witek-hajduk@sgh.waw.pl; btarga@sgh.waw.pl.

Ministry of Science and Higher Education
Republic of Poland

The creation of the English-language version of these publications is financed in the framework of contract No. 607/P-DUN/2018 by the Ministry of Science and Higher Education committed to activities aimed at the promotion of education.

1. Introduction

For years, researchers have highlighted the growing impact of the Internet on business strategies (e.g. Dikanović, 2011). The global scope of the Internet, its low running costs, the widespread and progressive commercialization, and the development of Internet technologies are conducive to the internationalization of firms. Besides the traditional (offline) path of internationalization, entrepreneurs can apply a modern – online path (Shneor and Flaten, 2008). The phenomenon of the internationalization of enterprises using Internet technology is called "Internet-based internationalization" (Ullrich, 2011) or "Internet-enabled internationalization" (Jaw, Chang and Chen, 2006). There are two categories of companies in terms of the use of the Internet in foreign expansion: 1) the Internet is the only marketing channel (Internet-based firms – pure clicks) and 2) the Internet as a complementary platform for their international activity (Internet-enabled firms – click&mortars) (Shneor and Flaten, 2008).

Researchers devote much attention to the utilization of the Internet in the firm internationalization, in particular by small and medium-sized enterprises (Sinkovics, Sinkovics and Jean, 2013), also by the so-called born globals (Jaw et al., 2006) and utilization of web technology to speed up the process of internationalization (Yu, de Koning and Oviatt, 2005). One of the most important questions in the field of international business that researchers have tried to answer is what are the drivers of the international expansion of a company and what factors determine the Internet-based foreign expansion (e.g. Nguyen, 2007; Senarathna, Warren, Yeoh and Salzman, 2014).

Many scholars dealing with strategic management (e.g. Oliver, 1997; Peng and Heath, 1996), international business (Hotham and Pedersen, 2015; Berry, Guillén and Zhou, 2010) and entrepreneurship (Salimath and Cullen, 2010) refer to the concept of new institutional economics (new institutionalism) (DiMaggio and Powell, 1983; North, 1990; Scott, 1995, Williamson, 2000). According to this concept, the institutions, defined by Scott (1995) as "regulative, normative, and cognitive structures and activities that provide stability and meaning to social behaviour", determine entrepreneurial behaviour and business strategies. Institutional conditions and transitions are perceived as "a third leg of the strategy tripod" (Peng, 2006). Scholars (e.g. Low and MacMillan 1988; Gnyawali and Fogel, 1994) postulate that studies on international entrepreneurship and international business should focus on the contextual aspects. According to Hotho and Pedersen (2015), the institutional approach addresses and explains various aspects of international firm behaviour. This is why the new institutionalism perspective is perceived as very relevant and has become, like the resource-based view and industry-based view, one of the key theoretical frameworks in the field of strategic management (Peng, Wang and Jiang,

 DOI 10.7172/1644-9584.73.6

2008) and entrepreneurial studies (Manolova, Eunni and Gyoshev, 2008). Institutional analysis involves an examination of institutional environment that includes a set of political, economic, social, and legal conventions (Oxley, 1999). Institutions affect individual behaviour providing rules and enforcing mechanisms that constrain actors (Salimath and Cullen 2010). North (1990) distinguishes: 1) **formal institutions:** laws, regulations, rules (formal rules, that is legal regulations and property rights), 2) **informal institutions** – unwritten norms or conventions as well as attitudes rooted in each society (culture, customs, norms, tradition) that impose restrictions on individuals' behaviour, contributing to reducing uncertainty and reducing transaction costs, and 3) **sanctions** that apply to the execution of both formal and informal rules of the game. Scott (2007) names and defines three categories of institutional forces in the following way: 1) **the regulative component** (governmental legislation, industrial agreements and standards), 2) **the normative component**, that is ground rules to which people conform (values – what is preferred or considered proper and norms consistent with those values – *how* things are to be done), and 3) **the cognitive component**: models of individual behaviour – rules and meanings that limit appropriate beliefs and actions, that may operate more at the individual level in terms of the culture and language, and other taken-for-granted and preconscious behaviour that people rarely think about (DiMaggio and Powell, 1983). Many authors agree that the fundamental role of institutions is to reduce uncertainty by conditioning the ruling norms of behaviours and defining the boundaries of what is legitimate and to provide meaning (Peng, 2006).

The new institutionalism perspective is increasingly adopted also by researchers in the studies on the Internet technologies assimilation and e-commerce (Teo et al., 2003; Chatterjee, Grewal and Sambamurthy, 2002) and the cross-border e-commerce and Internet-based internationalization (e.g. Gibbs and Kraemer, 2003). However, there is no systematic review of literature on the institutional barriers to the Internet-based foreign expansion. The purpose of the paper is to fill this research gap. In this paper, we approach determinants of the Internet–based foreign expansion from the institutional perspective and identify the diversity of institutional barriers in home and host countries environment based on the systematic literature review. In particular, the aim of the paper is to answer the following research questions: 1) What are the main streams of research in the studies?, 2) What institutional barriers to the Internet-based foreign expansion are identified in the literature?

To answer the research questions, the authors clarify the concept of institutional barriers to the Internet-based foreign expansion and identify a catalogue of such barriers based on the systematic literature review covering not only scientific journals but also analytical reports of international organizations (e.g. UN, EU), commerce chambers and think tanks devoted to the role of the Internet in foreign expansion.

The article is structured as follows. First, it presents a classification of foreign expansion and digital marketing usage determinants. Second, it describes the research method used. Third, it presents the main streams in the Internet–based internationalization studies and categories of institutional barriers to the Internet-based foreign expansion based on the systematic literature review. The paper is summarized in the presentation of conclusions, limitations, and suggestions for the future research.

2. Determinants of the Internet-Based Foreign Expansion of Enterprises

Determinants – both stimulants of and barriers to entrepreneurship and international business – are important and ongoing topics in the scientific discourse and empirical studies on entrepreneurship (Glinka and Hensel, 2012) and international business (McDougall and Oviatt, 2005).

For years, the stimulants of and barriers to internationalization and their influence inter alia on the speed, degree, forms of internationalization, and on the outcomes of the company have been the important fields of studies on the firm internationalization (e.g. Leonidou, 2004). Scholars indicate numerous factors determining the internationalization of enterprises. McDougall and Oviatt (2005) distinguish four categories of both internal and external stimulators of the firm internationalization: 1) enabling internationalization: (development of new technologies in transport and telecommunication), 2) motivating internationalization: increasing competition motivating managers to accelerate foreign expansion to gain superiority on a foreign market, 3) mediating: the characteristics of managers undertaking decisions about internationalization, and 4) moderating: the degree of the involvement of the company in the international business network and the level of knowledge utilization in the enterprise. Plenty of scholars distinguish three categories of factors determining the firm internationalization 1) environmental factors, 2) determinants at the level of the organization, and 3) individual characteristics of owners/managers/decision makers. According to Leonidou (2004), there are the following groups of export barriers/stimulants: 1) internal – the firm's resources and competences, including managerial characteristics, and the company's approach to the internationalization, and 2) external – the determinants in the domestic and foreign environment of the company. Moreover, Leonidou, Katsikeas and Piercy (1998) divide managerial characteristics as determinants of internationalization into four categories: 1) objective-general – characteristics of the entrepreneur that may affect not only internationalization but also other corporate activities, 2) objective-specific – that relate specifically to internationalization, 3) subjective-general – referring to the attitude and behaviour of the decision maker, not necessarily to international activity, and 4) subjective-specific – subjective in nature and relating specifically to

DOI 10.7172/1644-9584.73.6

internationalization. Ruzzier, Hisrich and Antoncic (2006) and Casillas and Accede (2013) also list three groups of export drivers: 1) at an environmental level/inter-organizational level, 2) a firm level, and 3) a managerial/individual level. Halikias and Panayotopoulou (2003) indicate both internal determinants of export (decision maker's characteristics, and organizational characteristics – export and marketing policies and efforts, and competitive advantages and disadvantages of firms) and external ones (characteristics of the firm environment). In turn, Suárez-Ortega and Alamos-Vera (2005) focus on internal factors: 1) firm resources and competences, 2) characteristics of decision makers, and 3) attitudes and perceptions of decision makers.

Due to the increasing adoption of the Internet technology in business activities, also in firms' internationalization, enablers of and barriers to digital marketing and e-commerce have also become an important topic of studies (e.g. Bordonaba-Juste, Lucia-Palacios and Polo-Redondo, 2012). Scholars have identified the following categories of factors determining the digital marketing and cross-border e-commerce usage:

1) **Internal – owner/decision maker-specific factors:** owner/decision maker of the expertise and the skill to use new technologies: knowledge of how to benefit from new technologies in business, the attitude of the owner/manager/employees to new technologies and online activities, motivation to use them (Karjaluoto and Huhtamäki, 2010), perceived benefits/usefulness of new technologies (Karahanna, Straub and Cherian, 1999), perceived strategic importance of digital channels (Bharadwaj and Soni, 2007).
2) **Internal – resource-related factors:** human resources, financial resources and technological resources (Karjaluoto and Huhtamäki, 2010) such as: lack of sufficient human resources, capital and knowledge to adopt digital channels fully (Juvonen, Tallinner, Karjaluoto and Jayawardhena 2012); the skills of the employees to utilize the channels (Sayre, Rastogi, Zwillenberg, Vassar and Sheerin, 2012), a lack of financial resources/capital (Federico, Aretino and Katniss, 2012), technological knowledge of the company and firm size (Tao, 2007).
3) **External – environmental factors:** the industry sector and even product type/characteristics (some products are better communicated through digital channels) (Karjaluoto and Huhtamäki, 2010), customer behaviour, competitive landscape, (Chong and Parvin, 2007; Levy, Powell and Worrall, 2005), socio-cultural (general and computer illiteracy, language skills, awareness and knowledge of e-commerce benefits, a lack of transactional and institutional trust, degree of risk aversion), technological, economic (e.g. credit card penetration, purchasing power, unavailability of ICT and other supporting infrastructures), political and legal environment including e-commerce regulations (e.g. a lack of laws that provide legal validity of digital and electronic signatures) (Kshetri, 2007; Zaied, 2012).

Researchers studying the determinants of the adoption of the Internet technology in business activities and the Internet-based firm internationalization have focused particularly on the internal factors (on the organizational level and the individual characteristics of managers/decision-makers), and less attention was paid to the determinants in the environment, especially from the institutional perspective.

3. Methodology

This study aims to systematize the knowledge about formal and informal institutional barriers of the Internet-based foreign expansion of enterprises. To achieve this goal and to answer the research questions, a systematic literature review methodology was adopted (e.g. Denyer and Tranfield, 2008; Tranfield, Denyer, Smart, 2003) which is very useful in collecting and summarizing already existing studies by identifying the existing trends, themes and topics in the literature.

This method has been extensively used in management and international business studies (e.g. Caputo, Pellegrini, Dabic and Dana, 2016). According to these studies, the process of the systematic review adopted in our research included the following stages: 1) formulation of research questions, 2) databases selection, 3) choice of the search terms (keywords), 4) applying practical screening using a set of the inclusion (all dates, all countries, all industries, all methodologies) and exclusion criteria (editorials, forum reviews, short comments), 5) applying scientific quality screening and looking for articles that correlate with the research theme in two steps: first, the selected articles were scanned by reading all their abstracts, and second, every selected article was read in full, 6) conducting the analysis of the selected papers in a qualitative way, and 7) synthesizing the results.

The review comprises English and Polish language peer-reviewed journal articles as well as reports on e-business expansion prepared by international organizations (EU, UN), trade chambers and think tanks. Full-text electronic databases, including EBSCOhost Business Source Complete, ProQuest ABI/INFORM, Palgrave Macmillan, Emerald Insight and Google Scholar, were used as the database of publications. The relevance of the papers focusing on institutional barriers of the Internet-based foreign expansion of enterprises was ensured by requiring all the selected publications to contain the words "Internet" and "International*" and "Factors" or "Drivers" or "Barriers" or "Institution*" and "Firm*" or "Compan*" or "business*". A few searches for alternative strings (e.g. export, e-commerce, cross-border sales, expansion, single market, legal, etc.) were performed and the chosen search string was set to include the largest number of studies, which broadened the review scope. For each identified paper, we undertook a retrospective search of citations to identify other related publications.

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Altogether, we gathered 76 publications, including scientific articles, conference and working papers and reports. After assessing each paper, we read and evaluated 15 papers considered relevant for the study and extracted their findings for analysis.

4. Institutional Barriers to the Internet-Based Foreign Expansion of Enterprises – Literature Review Results

Only a few of the identified publications are articles from scientific journals, and as many as 7 are reports developed upon request of various institutions, including the European Commission, the Swedish National Board of Trade, and the United Nations Conference on Trade and Development.

According to their content, selected publications were assigned to three clusters representing categories of institutional barriers to the Internet-based foreign expansion distinguished in the literature: 1) publications concerning both formal and informal institutions (7 papers), 2) publications concerning informal institutions only (2 papers), 3) publications concerning formal institutions only (2 papers) (see: Table 1).

	Authors	[In:] Journal/ Report/Book	Methodology	Categories of institutional barriers
publications concerning both formal and informal institutions	Clay and Strauss, (2002)	Advances in Strategic Management	Conceptual article, case studies	**Formal institutions:** redress mechanisms in trade relations between different states of the USA **Informal institutions:** trust in trade relations between different states of the USA
	Perritt (2000)	University of Pennsylvania Journal of International Law	Conceptual paper	**Formal institutions:** dispute resolution **Informal institutions:** trust
	Kshetri (2007)	Electronic Commerce Research and Applications	Qualitative study (case study)	**Formal institutions:** political barriers to e-commerce **Informal institutions:** social barriers to e-commerce in developing countries

continued Tab. 1

	Authors	[In:] Journal/ Report/Book	Methodology	Categories of institutional barriers
publications concerning both formal and informal institutions	Yu, de Koning and Oviatt (2005)	International Entrepreneurship, Advances in Entrepreneurship. Firm Emergence and Growth, 8, Emerald Group Publishing Limited	Literature review, case study of the book-retailing industry in the USA	**Formal and informal institutions** (coercive, normative, mimetic), influence on the Internet adoption and accelerated firm internationalization – emerged among the early majority of adopters and predominant among the late majority and laggards
	European Commission (2013)	Consumer attitudes towards cross-border trade and consumer protection.	Consumer survey	**Formal institutions:** cross-border complaints and disputes **Informal institutions:** trust
	European Commission. (2017)	Europe's Digital Progress Report – Use of Internet	Market survey	**Formal institutions:** dispute resolution Informal institutions: trust
	United Nations Conference on Trade and Development (2015)	Cyberlaws and regulations for enhancing e-commerce	Comparative legal study	**Formal institutions:** dispute resolution **Informal institutions:** trust, fraud and scams
publications concerning formal institutions	Gibbs J.L. and Kraemer K. (2003)	Electronic Markets	Quantitative telephone survey of 2139 firms located in 10 countries that use the Internet to buy, sell, or support products and services	**Formal institutions:** legislation barriers (business laws do not support e-commerce, inadequate legal protection for Internet purchases, taxation of Internet sales), government promotion
	Duch-Brown and Martens (2015)	Digital Single Market. Institute for Prospective Technological Studies. Digital Economy Working Paper	Quantitative study on a sample of 8,705 firms in 26 EU member states, statistical data	**Formal institutions:** diversified regulatory framework, cross-border complaints and disputes

DOI 10.7172/1644-9584.73.6

continued Tab. 1

	Authors	[In:] Journal/ Report/Book	Methodology	Categories of institutional barriers
publications concerning formal institutions	Kool, van Veenstra, Rumpf and Chernovich (2011)	Report: Barriers to eCommerce and Trustmarks Inventory. EU online Trustmarks – Building Digital Confidence in Europe	Qualitative study (Interviews) and Quantitative study based on the statistical data	**Formal institutions:** diversified regulatory framework, cross-border complaints and disputes, frauds
	Swedish National Board of Trade (2011)	Survey of e-commerce barriers within the EU	Case studies	**Formal institutions:** diversified regulatory framework within the EU
	Swedish National Board of Trade (2015)	Online Trade, Offline Rules	Case studies	**Formal institutions:** diversified regulatory framework within the EU
	European Commission (2011)	Commission staff working paper	Consumer survey, statistical data	**Formal institutions:** diversified regulatory framework, cross-border complaints and disputes, frauds
publications concerning informal institutions	Jarvenpaa, Tractinsky and Vitale (2000)	Information Technology and Management	Quantitative study using experimental approach, a sample of MBA students in Australia	**Informal institutions:** consumer trust
	Łapiński, Peterlik and Wyżnikiewicz (2012)	Institute of Research on Free Market Economy	Case studies	**Informal institutions:** traditional perception of the country from which an e-trader or e-consumer operates

Tab. 1. Clusters of publications on the institutional barriers to the Internet-based foreign expansion of enterprises. Source: Own elaboration.

The papers on the institutional barriers to the Internet-based foreign expansion set different research goals (e.g. understanding the complexity of barriers, detailed analysis of one category of institutional barriers) and propose inconsistent classifications of barriers to the Internet-based foreign expansion of enterprises/cross-border e-commerce.

Many of these papers concern **legal and regulatory framework, redress mechanisms** that are formal institutions (North,1990) considered as significant barriers to the Internet-based foreign expansion (Clay and Strauss, 2002; Perritt, 2000; Kshetri, 2007; Swedish National Board of Trade, 2011, 2015; European Commission, 2011, 2013, 2017; Łapiński, Peterlik and Wyżnikiewicz, 2012; Duch-Brown and Martens, 2015; Kool, Veenstra, Rumpf and Chernovich, 2011). Legal barriers to the Internet-based expansion are defined as "rules that render cross-border trade more difficult and sometimes impossible. The concept of rules encompasses laws and regulations, judgments and decisions in individual cases as well as guidelines, interpretation documents and recommendations by the public authorities. Unlike market deficiencies, legal barriers have their origin in the actions of the public authorities" (Swedish National Board of Trade, 2015). Such barriers are related to more restrictive rules in host countries, overall fragmentation of the regulatory approaches among many countries and unclear rules on applicable laws and jurisdiction. According to Duch-Brown and Martens (2015), dealing with foreign regulations appear to be a more significant barrier for small and medium companies than to large companies.

Previous studies (e.g. Gibbs and Kraemer, 2003) confirm that institutional factors in the government policy and particularly a lack of supportive legal infrastructure and laws that protect e-commerce transactions and Internet taxation regulations have a negative effect on the cross-border e-commerce adoption. According to Kshetri (2007), many developing countries lack business laws for e-commerce that provide legal validity of digital and electronic signatures, concern privacy and security and legal protection for Internet purchases. The results of Gibbs and Kraemer's (2003) research demonstrate also the significance of the government promotion through incentives and procurement requirements as institutional drivers.

The major legal obstacles for cross-border online sales differ among national rules concerning VAT, copyrights and electric waste disposal (Kool et al., 2011). There are also bans in some countries on online sales of goods and services that are otherwise legally available in traditional stores (e.g. pharmaceuticals in Germany, gambling services in the Netherlands) or requirements of physical presence of foreign e-traders (Swedish National Board of Trade, 2011). These barriers are particularly counterproductive for online activity and usually trigger high fixed costs and may deter many SMEs from entering foreign markets. An example of such a barrier is the obligation in Ireland for foreign online travel agencies to obtain a local license to offer package travels to Irish customers, which involves payment of minimum capital of EUR 25,000 (Swedish National Board of Trade, 2011). Another example is the requirement in some EU countries to have an office to register country domain names (".de", ".fi"). Yearly overhead costs for maintaining an office in each of these countries was estimated at ca. EUR 10,000 (Swedish National Board of Trade, 2015). The so-called top-level domains are important for ensuring a higher rank of a website in the search results in foreign markets. Without these domains, foreign e-traders are clearly at a competitive disadvantage. Moreover, if customers prefer to buy from local websites or websites that are adapted to local

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markets, websites with local top-level domains seem an indispensable element of localization (Swedish National Board of Trade, 2015).

Another legal and regulatory barrier is unclear rules on law applicable to cross-border transactions. The boundless nature of the Internet makes the application of contract law more difficult as the territories of the contract parties cannot be easily identified (Perrit, 2000). There is no clarity whether and when foreign law applies to cross-border e-commerce transactions. According to the EU rules on law applicable to contractual obligations (Regulation Rome I), the law applicable to international sales contracts is the law of the country where the seller has his habitual residence, unless the parties decided otherwise. This implies legal certainty for the seller, but this rule does not apply to international contracts with consumers. In effect, each e-trader running an EU-wide e-store needs to be aware of differences in the consumer protection laws binding in all EU member states.

Implementation of the Consumer Rights Directive (applicable since June 2014) brought about more comfort by harmonizing the length of withdrawal period, rules on the passing of risk in the case of loss of, or damage to, the goods. There are still some issues vital for online contracts which are regulated differently within the EU, e.g. liability for faulty goods, unfair contract terms (Swedish National Board of Trade, 2015). As long as national provisions on consumer protection remain fragmented, e-traders need to be aware of the legal differences and adapt to them when targeting the markets of other EU member states. High costs of adjustments to differentiated legal framework are indicated in most researches as a major barrier for many small businesses (Łapiński et al., 2012; Swedish National Board of Trade, 2015; UNCTAD, 2015).

What is even more puzzling for e-traders is the difficulty to clearly determine the moment when the foreign law (law of the consumer's country) applies. The law of the consumer applies when a company was "directing activities" to that country, which is an ambiguous term and requires verification of e-traders' intention by reference to the language of the website, helpdesk service provided to local customers, use of a local top-level domain name, local newsletters or sponsored links etc.[1] In effect, an e-trader may not be aware when a particular transaction is governed by the foreign law.

In light of the publications, the Internet-based foreign expansion depends also on sanctions that can be applied in case of non-compliance with formal norms, e.g. cross-border disputes resulting from complaints over the quality of products, frauds or non-payment. Enforcement of sanctions in cross-border disputes depends largely on available formal procedures. In effect, sanctions constitute an important element of formal institutional framework for the Internet-based foreign expansion. In case of e-commerce disputes, sanctions can be executed by a number of formal institutions (courts, consumer ombudsman, consumer organizations or consumer protection authorities) that can bring compensation to the victim and punish the injurer. Dispute resolution in cross-border e-commerce is considered highly ineffective by customers and e-traders: 57% of consumers in the EU were not interested in cross-border transactions because they were afraid of handling potential complaints in case they needed to return or replace faulty products acquired from foreign e-traders (European Commission, 2011) and 59% were afraid about falling victim to scams or fraud (Kool, et al. 2011). Many retailers fear that foreign customers will not pay for the goods or generate additional costs by cancelling the order (Clay and Strauss, 2002; Kool et al., 2011).

Ineffective enforcement of sanctions stimulates abusive behaviour. The weakness of international redress procedures results firstly from the fact that competences of the formal institutions to **impose and enforce sanctions are mainly based on the concept of jurisdiction over a certain territory**. Due to difficulties in localizing conduct on the Internet, allocating jurisdiction to a formal institution is uncertain (Perritt, 2000). Scams or frauds on the Internet may escape the reach of authorities because it is easier to remove traces of activity on the Internet or to use a stolen identity (phishing) and **there is no universal monitoring system**.

Secondly, even if the relevant authority can be identified, **cross-border procedures on imposing and enforcing sanctions are very costly and lengthy**. An e-trader who directs online marketing activities to foreign consumers may launch proceedings against them (e.g. in case of non-payment) only in the country of the consumer's habitual residence (Regulation Brussels I). Launching lawsuits in foreign courts is formalized and their legal costs could easily exceed the value of the dispute. Duch-Brown and Martens (2015) found that costs associated with resolving complaints and disputes across borders are the key barrier for small and medium companies.

In contrast to formal institutional barriers and sanctions, there are few articles that analyse informal institutional barriers in the context of cross-border e-commerce and promotion. Łapiński et al. (2012) stated that the attitude to cross-border sales is related with the traditional perception of the country from which an e-trader or e-consumer operates. Consumers from Germany, France, the UK prefer to buy online from e-traders located in other western countries, who are traditionally associated with higher quality of products and services. This cognitive element is deeply embedded in consumer awareness and is transferred from "offline" world to online decisions. Traditional perception of east Europe creates a barrier for e-traders from countries like Poland. On the other hand, Polish e-traders may benefit from perception of Poland as a country with more developed economy and membership in the European Union, among consumers in the former Soviet Union. Simultaneously, the Internet helps foreign e-traders to bypass cognitive barriers resulting from the perception of the former Soviet Union markets as risky for doing business. By means of the Inter-

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net, e-traders could expand in these markets, without costly investments in traditional sales networks.

Many scholars underline social barriers to e-commerce related with informal institutions (e.g. Kshetri, 2007) such as e.g. preference for personal face-to-face communications over Internet-based relationships. The research also consistently underlines **trust of consumers and e-traders** as a necessary condition of foreign Internet-based expansion. Trust is defined in diverse ways and is characterized by notions of uncertainty, vulnerability and dependence (Kool et al., 2011). On the Internet, **trust is a critical factor in any relationship in which the trustor (e.g. consumer) does not have direct control over the actions of a trustee (e.g. merchant or store)** (Jarvenpaa, Tractinsky and Vitale, 2000). Trust plays a more significant role in cross-border e-commerce acceptance than for e-commerce in general (Kool et al., 2011). According to Kshetri (2007), a lack of "transactional and institutional trust" related to the weak law regulations can be a key impediment to e-commerce.

A lack of trust between consumers and retailers has been known as a barrier in principle since the beginning of distance selling. R.W. Sears, who developed a system of mail sales of watches in the late 1880s in the USA, introduced prepayments, credit limits and sent goods to post offices in small towns where the post clerk practically knew all residents and could assess the credibility of the buyer. The retailer's risk related to crediting buyers in distance contracts was further limited by credit cards in the 2nd half of the 20th century (Clay and Strauss, 2002).

The barrier of trust in a trader offering his goods at a distance is more difficult to overcome in the online reality: "The potential value of expanding the geographic scope of markets is that buyers and sellers can reach beyond their cousins and neighbors; however, as they do so, informal mechanisms of trust become less available and uncertainty increases. The devil you know is replaced by the devil you don't, and conventional wisdom suggests that risks are lower when dealing with the devil you know" (Perrit, 2000).

To increase trust in cross-border e-commerce, numerous initiatives are taken to improve the performance of existing institutions and to develop new institutions that better fit the boundless nature of Internet. One way of building trust on the Internet are informal ways offered by portals like eBay, e.g. customers' opinions about e-traders. They help to reduce uncertainty to some extent, but they could be manipulated by dishonest e-traders. Another way to increase consumers' trust in cross-border ecommerce are trustmarks, i.e. labels assuring consumers that a particular site or online seller has been validated by a trustmark provider and found to be safe to use (Kool et al., 2011). The public authorities can increase trust by semi-formal networks responsible for handling cross-border disputes and for mediating between consumers and traders located in different countries, like European Consumer Centres. Another semi-formal network is the

International Consumer Protection and Enforcement Network (ICPEN), a worldwide organization composed of consumer protection authorities from over 60 countries. The goal of ICPEN is to combat fraudulent, deceptive and unfair trading practices (UNCTAD, 2011).

5. Conclusions

The theoretical contribution of this paper is the systematic review of the literature about the institutional barriers of the Internet-based foreign expansion of companies. Based on the literature review, the authors conclude that there are only several publications and only a few scientific empirical studies on this topic taking the institutional perspective although many authors postulate the need for such an approach (Gibbs and Kraemer, 2003). Thus, there were only a few empirical studies using quantitative research on the entrepreneurs' perception of institutional barriers and enablers (e.g. Gibbs and Kraemer, 2003), and a few qualitative studies using case study methods or in-depth interviews with managers/owners regarding that issue (e.g. Kshetri, 2007). The authors identified three clusters of publications concerning categories of institutional barriers to the Internet-based foreign expansion of companies distinguished in the literature: 1) concerning both formal and informal institutions, 2) concerning informal institutions only, and 3) concerning formal institutions only.

According to the literature review, institutional factors play important roles in the Internet-enabled internationalization of companies. Based on the publications on the typology of institutions and papers on the determinants of the Internet-based internationalization, the authors distinguish the following institutional barriers to the Internet-enabled foreign expansion: 1) formal institutions, that is economic (e.g. low Internet penetration, low credit card penetration, low purchasing power, unavailability of ICT and other supporting infrastructures), social (e.g. general and computer illiteracy, language skills), and political and legal conventions (e.g. more restrictive laws, regulations and rules for the Internet-based internationalization in host countries, unclear rules on law applicable to cross-border transactions, a lack of supportive legal infrastructure and laws that protect e-commerce transactions, Internet taxation regulations, overall fragmentation of the regulatory approaches among many countries, discrepancies in privacy protection rules, laws that provide legal validity of digital and electronic signatures, restrictions on the activity of the foreign social media providers, cross-border procedures on imposing and enforcing sanctions that are very costly and lengthy, industrial agreements and standards referring to international and digital business), and 2) informal institutions: national culture, customs, norms, tradition, unwritten codes of conduct, ideologies, including: the attitude of customers and entrepreneurs/managers to the Internet usage and cross-border e-commerce, the perception

DOI 10.7172/1644-9584.73.6

of other countries (country of origin effect), a lack of transactional and institutional trust, awareness and knowledge of e-commerce benefits, high degree of risk aversion.

Political and legal barriers related to legal and regulatory framework such as fragmentation of rules, bans on online activity, unclear rules on laws applicable to cross-border transactions are the most frequently studied institutional determinants (e.g. Kool et al., 2011; Gibbs and Kraemer, 2003). The authors underline also weaknesses of the enforcement of sanctions in cross-border disputes (e.g. disputes resulting from complaints over the quality of products, frauds or non-payment). The researchers also agree that trust (of e-traders and consumers) is as a key condition of cross-border online expansion.

The review of the studies shows that there are fewer publications on economic and social conventions as formal institutional barriers and on informal institutional barriers, in particular on the influence of the national culture, customs, norms on the cross-border e-commerce and international digital marketing. Therefore, future research should address these determinants.

One of the limitations of this paper is the research method – the literature review covering not only scientific journals but also analytical reports and EU publications.

Endnotes

1 See Judgment of the Court of 7 December 2010 in Joined Cases C-585/08 and C-144/09.

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