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European Integration and Europeanisation: Benefits and Disadvantages for Business

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Abstract

European integration is a project of great economic importance for the 500 million consumers and 21 million companies in Europe. With the economic borders between Member States removed, Europeanisation becomes inevitable for companies. The paper proposes a framework to analyse the benefits and disadvantages for business that come with the process of European integration, structured according to the logic of the four fundamental freedoms of movement within the Internal Market (freedom of movement of goods, services, capital and people) complemented by the section on technology and innovation, and the general EU regulatory environment. Whereas the business decisions need to be taken on a case-by-case basis, taking into consideration firm's own capabilities and resources as well as industry specificities, several recommendations for companies willing to Europeanise are made, based on an analysis of the regulatory macro-environment of the EU. Above all, any company willing to be successful in the EU has to become a learning organisation, responsive to the advancements of the macro-environment. The ability to anticipate the regulatory developments and to adjust one's own business and corporate strategy accordingly is the key to achieving sustainable competitive advantage in the European Union.

Keywords: European integration, Europeanisation, strategic management, policy analysis

JEL codes: L21, K20

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1 Introduction

European integration is a project of great economic importance for the consumers and business in Europe. It has led to the gradual opening the borders for goods, services, people and capital (the four fundamental freedoms of movement) and the creation of the Single Market in 1992, which in 2012 comprised **500 million consumers and around 21 million enterprises.**[1] Although the Single Market is far from complete, over the period 1992-2008 the estimated gains of its creation amounted to 2.13% higher GDP (EU27) and 2.77 million of new jobs.[2] The objectives of a truly integrated Internal Market[3] can only be achieved if national and European policies create a favourable climate for business to grow across borders.[4]

Europeanisation in a business context refers to *"being and becoming more European"*[5] and can relate both to the firm's environment and to the firm itself. Europeanisation of the company's environment is manifested through the emergence of a homogenous European business environment, consisting of a level playing field based on common rules and standards, as well as of a certain degree of convergence of consumer preferences. The Europeanisation of the firm itself refers to, on the one hand, extending the geographical scope of the firm to the European region, and on the other hand, to corporate integration: integrating the firm's operations and business policies in a standardised manner across Europe.[6] The main benefits of corporate integration are cost savings, achieved through the exclusion of redundant expenses, scale economies, transfer of best practices and consistency of policies. The rationale of companies to Europeanise lies in searching competitive advantages by using the resources and market opportunities within the European Internal Market.

The aim of this paper is to investigate the following three questions that link the Europeanisation of the business environment to the Europeanisation of firms. These questions are of paramount importance to defining the competitive advantage of a firm:

1. What (strategic) benefits does the European integration (in its diverse elements and components) offer to companies for Europeanising?

2. What are the potential disadvantages of the European integration for business and corporate strategies of European and non-European companies?

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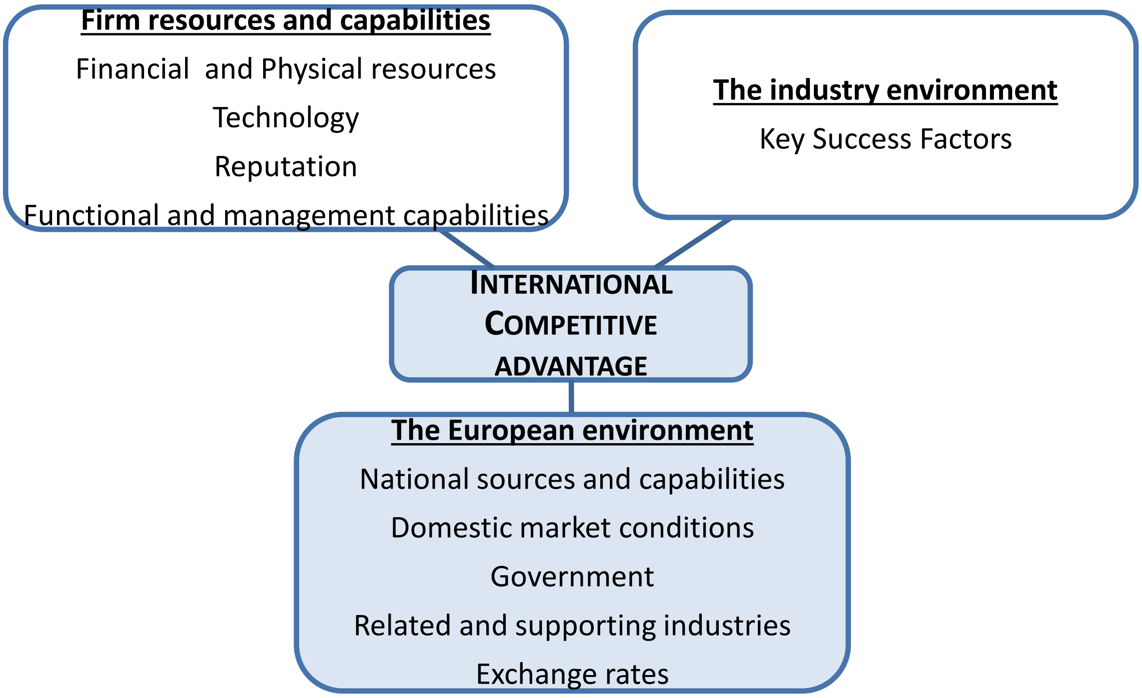
[1] European Commission, Marche intérieur et services, Votre marche unique?, Brussels, 2010, p. 6.
[2] European Commission, 20 years of the European Single market. Together for new growth, Main achievements, Brussels, 2012.
[3] In the paper, the terms Internal Market and Single Market are used interchangeably.
[4] European Commission, The EU Single Market, Business environment, available at: http://ec.europa.eu/internal_market/top_layer/business-environment/index_en.htm, accessed 26.11.2012.
[5] Harmsen R. and Thomas M., Europeanisation: institution, identities and citizenship, Yearbook of European Studies. Editions Rodopi B.V., Amsterdam-Atlanta, GA, 2000, p.24. In political studies the term 'Europeanisation' refers to "*incremental process reorienting the direction and shape of politics to the degree that EC political and economic dynamics become part of the organisational logic of national politics and policy-making*." Ladrech, R., 'Europeanization of Domestic Politics and Institutions: The Case of France', in: Journal of Common Market Studies, Vol. 32, 1994, p. 69.
[6] Dunning J. H. and Robson P., 'Multinational Corporate Integration and Regional Economic Integration.', in: Journal of Common Market Studies, Vol. 26, 1987, pp. 103–125.

3. What strategic logics will be helpful for European companies to take full advantage of the potential (strategic) benefits offered by the European integration?

While the analysis of the European environment cannot remain in isolation with the other determinants of competitive advantage(firm resources and capabilities as well as the analysis of industry environment (see Figure 1)), this paper will explore solely the characteristics of the specific European Union environment, with direct applicability to business and corporate strategy.

Figure 1. Competitive advantage in international context



Source: Grant R., Contemporary Strategy Analysis, 6th edition, Blackwell publishing, Oxford, 2008, p. 366.

The paper proposes a framework to analyse the benefits and disadvantages for business that come with the process of European integration, structured according to the logic of the four fundamental freedoms of movement within the Internal Market (freedom of movement of goods, services, capital and people). The analysis of the four markets is preceded by a general section on the regulatory environment in the EU and concluded with a section on the European market for technology and innovation, based on the classification of the EU regulatory *acquis* used by Jacques Pelkmans.[7]

[7] See for instance Pelkmans J., European Integration: methods and economic analysis, 3rd edition, Pearson Education, Harlow, 2006, p. 61.

Table 1. Overview of benefits and disadvantages of European integration for business

	Regulation	Goods	Services	Labour	Capital	Innovation
Benefits	• Mutual recognition • Competition policy • Easier rules for business acquisition	• Mutual recognition • Economies of scale • New export markets • Voluntary standards	• (Partial) mutual recognition • Cross-border public procurement • Liberalisation in energy, transport, telecom.	• Mutual recognition of qualification • Wide learning opportunities	• Monetary Union • Access to capital and wide choice of financial products • Lower cost of capital	• Europe 2020 strategy and innovation programmes • European clusters
Disadvantages	• Accumulation of regulation • Sunk cost of compliance to regulation	• Easier entry of competitors • Price competition	• Huge price disparities • Remaining entry barriers • Fragmented national regulation	• Low mobility of labour • Fragmented national regulation	• Interdependence and systemic risk • Non-harmonised taxation	• Fragmented European market for innovation • Expensive EU patent
Recommendations	• **Get involved** in the interest representation in the EU • **Know** your rights in case of competition distortions	• **Optimise** resource opportunities in the EU • **Participate** in European standardisation • **Compete** through quality and innovation	• **Adopt** strategies to the level of openness of the market • **Use** the single points of contact for information and administration	• **Benefit** from the diverse European workforce • **Consider** the immobility of labour when localising business	• **Access** and move capital easily within the eurozone • **Take advantage** of legal opportunities to reduce tax burden	• **Benefit** from European framework for business services and innovation • **Localise** in European clusters
	Become a learning organisation					

Source: own analysis.

The overview of the argumentation and the general structure of the paper is presented in Table 1. The analysis of strategic benefits and potential disadvantages of European integration for business leads to overall recommendations addressed to companies wishing to take full advantage of the opportunities offered by the European integration. The conclusions cannot substitute an in-depth case-specific analysis of the impact of European Integration on a given company or industry, but should rather serve as a basis for further individual examination.

2 The regulatory environment and competition policy within the European Union

The market regulation within the EU has a deep economic rationale which consists of addressing market failures[8] for an increased social welfare (e.g. providing health, safety, environment and consumer protection) as well as removing barriers to the free movement of goods, services, capital and people. The regulatory environment of the EU makes it a relatively attractive location for business: with rules that aim to facilitate doing business in the entire Internal Market and stringent competition policy protecting from market abuse and distortions. Nevertheless, the EU is still perceived by some to be 'overregulated' with a significant body of legislation and regulation that can become challenging to cope with because of its volume and stringency when it comes to safety, health and environment protection standards. The overview of those aspects is presented in Table 2.

Table 2. Aspects of the general EU regulatory environment of relevance to business.

Relevance to business	EU regulatory environment
Benefits	• The principle of Mutual Recognition allows for lawful access of businesses to all national markets in the EU as long as the rules in one of the MS are adhered to. • The Small Business Act sets out easier rules and procedures for the establishment and for the acquisition of business across the EU. • Competition policy in the EU ensures a level-playing field for all the business entities.
Disadvantages	• The large stock of European and national regulation poses a challenge to business in terms of time and administrative capacity necessary to study and comply with the law. • Participatory democracy favours those that are able to lobby. Representing interest in the complicated process of the creation of legislation is challenging for enterprises without Public Affairs expertise.
Recommendations	• Get involved in the interest representation in the EU. • Know your rights and responsibilities in case of trade and competition distortions

Source: own analysis

Benefits

First of all, the most important positive aspect of the EU regulatory environment is that it aims to create a level playing field across the EU. According to the principle of **mutual recognition (MR)** present in most policy domains, there is no need to harmonise all national legislation in Member States (MS) – goods and services lawfully sold in one MS cannot be banned from another one. According to MR, differences between technical *specifications* in

[8] Market failures include externalities (costs transmitted between agents without agreed transaction for instance pollution of lake that affects others than the polluter), internalities (unexpected costs not included in the contract, especially in the case of services that are '*experience goods'*), imperfect competition (market power or distortions) and challenges of public goods (characterised by non-appropriability of revenues and costs and non-excludability of consumption). For an economic analysis of market failures, see: Pelkmans J., The Economics of Single Market Regulation, Bruges European Economic Policy Briefing n°25, Bruges, 2012, available at: www.coleurope.eu/beep.

national legislation cannot be an obstacle to free trade, as long as the *objectives* of national regulation in different MS are equivalent.[9] For business that means that it is enough to comply with the rules of the home country (origin country in case of export) in order to be able to produce and sell across the EU, even if specific detailed provisions of national legislation differ between countries.

Secondly, the European integration has **facilitated the establishment of enterprises** in the EU. By the end of 2009, electronic **points of single contact** (e-government portals) were introduced in all the Member States, simplifying all procedures involved in starting up a business and allowing to complete all formalities such as authorisation or notifications online. Similarly, physical one-stop shops allow companies to carry out the required procedures at a single administrative contact point. Following the introduction of the **Small Business Act** for Europe and other initiatives of the European Commission, the average cost and time for creating a company in the EU-15 has fallen from €813 and 24 days in 2002 to €397 and 6.5 days in 2011.[10] The current targets, following a review of the Small Business Act are to reduce the two values to 3 days for registrations of business and less than €100 of costs.[11] Likewise, the reviewed Small Business Act proposes actions to reduce inefficiencies in legal, tax and financial systems and to increase transparency facilitating **acquisition of firms**[12], though the implementation of such reforms is within the Member States' competence and remains variedly successful.

Thirdly, the European integration process was accompanied by development of a comprehensive **competition policy**[13] to ensure the smooth functioning of the Internal Market and to prevent anticompetitive behaviour of firms, e.g. abuse of dominant position in the market leading to the exclusion of competitors. The European Commission sanctions anti-competitive behaviour of companies and imposes control over mergers and acquisitions that could lead to the creation or the strengthening of dominant actors in the market.[14] Ensuring fairness and competition in the Single Market is of direct benefit for companies which enjoy lower or no entry barriers, and which are protected from collusion on behalf of the competitors aiming to control prices or divide up the markets.

Disadvantages

The EU is often perceived to be **overregulated**, with the relevant stock of EU legislation at the level of about 3600 *major* regulatory acts across different policy fields in 2008.[15] Extendedness of regulation requires a careful (and often costly) audit on the part of

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9 See: Pelkmans J., European Integration: methods and economic analysis, op.cit., p. 65.

10 European Commission, Small and medium-sized enterprises (SMEs), Improving the business environment: starting, running and growing a business, available at: http://ec.europa.eu/enterprise/policies/sme/business-environment/start-up-procedures/index_en.htm, accessed 26.11.2012.

11 European Commission, Your Europe. Start ups, available at: http://europa.eu/youreurope/business/starting-business/setting-up/index_en.htm, accessed 7.08.2013.

12 European Commission, Communication from the Commission to the European Parliament, the Council, Economic and Social Committee and the Committee of Regions. Review of the "Small Business Act" for Europe, Brussels, 23.02.2011.

13 See European Commission, Competition, available at: http://ec.europa.eu/competition/index_en.html for an overview.

14 European Commission, Summaries of Legislation: Competition, available at: http://europa.eu/legislation_summaries/competition/firms/index_en.htm, accessed 26.11.2012.

15 European Commission, Better Regulation – Simplification, available at: http://ec.europa.eu/governance/better_regulation/simplification_en.htm, accessed 26.11.2012.

the European firms, with the **accumulation of EU, national and even regional and local law** further increasing the regulatory burden. The compliance with this stock of EU common standards and regulations may require **irrecoverable investments** for European and non-European businesses to adapt their production of goods, provision for services and/or the organisation of their processes.[16] The Commission responds to the challenge by simplifying and codifying legislation. Between 2005 and 2012, the Commission managed to reduce the regulatory *acquis* by 10% - which corresponds to 1.300 legal acts and almost eight thousand pages of the Official Journal.[17]

Another challenge for business is the perceived **complexity of the regulatory process** in the EU for business, which prevents firms without capacity and competence to monitor the EU policy developments from active and full participation in the policy making process. When deciding on the legislation, the European institutions are open for **lobbying of interest groups**: businesses, NGOs, civil society organizations and consumers. A wide range of consultations, forums and a wide use of Regulatory Impact Assessments that analyse the effects of legislation on different stakeholders aim to ensure that the interests of different stakeholders are balanced out and addressed in the EU secondary law. This offers room for companies to influence results of legislative processes by providing the EU institutions with a business perspective and advice on technical matters. At the same time, due to the complexity and dynamism of the EU regulatory environment, influencing the legislative outcomes might prove a challenge for smaller companies, which end up at a disadvantage in comparison to large and more 'powerful' multinationals. Moreover, moving the lobbying arena to Brussels and away from the national level creates challenges for companies that are geographically and culturally further away from the 'capital' of Europe.[18]

Recommendations

Specific recommendations for a particular enterprise require a more in-depth, industry- and business-specific analysis of benefits and disadvantages of the given aspect of European integration. However, based on the few most important aspects of the EU regulatory policy analysed before, the following recommendations of universal applicability are proposed.

Get involved in the interest representation in the EU

Since the EU both depends on and welcomes the input of stakeholders in the regulatory process, companies should engage in EU public affairs. The first step is to develop awareness of the EU policy making and institutional set-up. The company can then take up actions depending on its resource availability: for large companies this can include creating an internal public affairs unit in order to collect and disseminate information, and to analyse the impacts and influences of the EU legislative process. Smaller firms can sign up for the national associations representing national industries within European associations or can outsource these tasks to consultancies, law firms or public affairs companies. To this

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Within the framework of 'Better Regulation' initiative, the existing stock of regulation is currently screened, simplified and codified.

[16] Pelkmans J., European Integration: methods and economic analysis, op.cit., p. 76.

[17] European Commission, Better regulation, Simplification, op. cit. accessed 26.04.2013.

[18] Greenwood J. and Dreger J., The Transparency Register: A European vanguard of strong lobby regulation? Interest Groups & Advocacy Vol. 2, 2013, pp. 139–162.

effect, a Transparency Register[19] has been set up at EU level. It provides businesses with a direct access to information about actors and interests pursued at the EU level.

Know your rights and responsibilities in case of trade and competition distortions

Although the regulatory environment of the EU ensures the four freedoms of movement and competition within the European markets, many companies still do face barriers to trade and fall victims to the abuse of dominant position of market leaders. In order to tackle the unfair trade (dumping, subsidies, safeguards, technical barriers to trade) and unfair anti-competitive practices (market rationing, price-fixing, predatory pricing) of the competitors, the 'victim' company should address, in the first case, the Directorate General Trade and, in the latter case, to the Directorate General for Competition Policy of the European Union.[20] These services of the European Commission are responsible for the investigations of the abovementioned cases. The Commission is empowered by the Treaty to apply the prohibition rules and enjoys a number of investigative powers to that end, due to the fact that trade and competition policy are exclusive competences of the European Union.

[19] Transparency Register, available at: http://europa.eu/transparency-register/, accessed 20.11.2012.
[20] Suder G., Doing Business in Europe, 2nd Edition, Sage Publications, London, 2008, pp. 218-238.

3 Integration of the market for goods

The Internal Market for goods is the one which advancement started the earliest in the history of the European economic integration.[21] Today, the EU is the largest economy in the world in terms of GDP, a huge market with vast opportunities for economies of scale for businesses. At the same time, opening of the national markets to the free trade in goods posed a substantial challenge of increased competition for enterprises, especially SMEs. An overview of those aspects can be found in Table 3.

Table 3. Aspects of free movement of goods of relevance to business

Relevance to business	Goods market in the EU
Benefits	• Opening of the Internal Market for goods creates opportunities for economies of scale in goods production and sales thanks to a huge market of 500 million consumers and 21 million enterprises. • Removal of borders lead to shorter delivery times and costs, allowing for more efficient organisation of the supply chain. • Voluntary European standards offer opportunities for cost reduction, increased product compatibility and encourage innovation.
Disadvantages	• More intense competition in goods market lead to the reduction of mark-ups, and is particularly challenging for SMEs. • The creation of the Customs Union lowered national tariffs for a number of countries and facilitated the access to the European market of non-EU competitors, further increasing competition.
Recommendations	• Optimise resource opportunities across the EU. • Compete on quality, efficiency and innovation, rather than on price. • Participate in European standardisation.

Source: Own analysis

Benefits

The free movement of goods represents a significant benefit for companies that produce transportable and tradable goods. Integrating 500 million potential consumers for Business to Consumer (B2C) activities and 21 million companies for Business to Business (B2B) activities has generated opportunities for achieving **economies of scale**, especially for large companies. The positive externalities resulting from the economies of scale differ between industries, with the highest in the transport equipment (on international level) and in textile & leather, machinery & electronics, and high-tech industries (on a domestic level).[22]

The reduction of border controls has **cut delivery times and costs** for companies that allows for a **more efficient organisation of supply chains** and a boost of trade. Before the creation of the Single Market, the tax system required 60 million customs clearance

[21] After the establishment of customs union (as a part of the European Economic Community) in 1958, the famous court case Cassis the Dijon (1979) and others, and Single European Act (1985) established rules against restricting free trade, allowing for the opening of the Internal Market for Goods.
[22] Henriksen E., Midelfaht Knarvik K.H and Steen F., Economies of scale in European manufacturing revisited. Norwegian School of Economics and Business Administration, Discussion Paper, 3 May 2001. Available at: http://www.nhh.no/Files/Filer/institutter/sam/Discussion%20papers/2001/dp12.pdf

documents per year.[23] Under the Mutual Recognition principle, the EU companies that legally produce goods in one MS are automatically granted an intra EU market access. Empirical evidence shows that trade within the EU has risen *"from €800 billion in 1992 to €2800 billion in 2011 for the value of goods exchanged."*[24] At the same time, non-European companies that wish to enter the EU need to show compliance with the high EU quality requirements, for the benefit of customers and European business partners.

The European approach to standardisation of goods (but also services), allows for much flexibility and innovation. Since the **New Approach**[25] to technical specifications in Europe has been introduced, only essential safety requirements are harmonised throughout the EU, while technical specifications are entrusted to standardisation organisations that are much closer to industry. **Standards in the EU are voluntary**. On the one hand, enterprises can benefit from the practices, reduce their business costs and make their products compatible with others on the market when they decide to follow the European standards.[26] On the other hand, the voluntary nature of standards facilitates innovation: enterprises can innovate on the margins (beyond but compatible with existing best practice) but may also develop entirely new proprietary technical solutions, not limited by the existing standard.

Disadvantages

While the opening of the Internal Market to the movement of goods is in general perceived as a positive development, it does create challenges for enterprises too. The facilitation of intra-EU trade led to **more intense competition in the goods markets**, which forces enterprises to restructure or adjust their strategy in order to face increased competition. Price competition leading to smaller mark-ups increased particularly in markets of standardized products.[27]

The strong competition within the Single Market is also one of the main problems that the **SMEs** are facing in the EU.[28] With lower level of resources, lower capability of dealing with administrative burden, language and financing problems, SMEs may be facing problems to to reap the full benefits of entering the European market beyond the domestic market, while at the same they need to compete with a higher number of internationally present enterprises. Illustrative is the fact that in the Czech Republic many companies went bankrupt because they were not strong enough to face competition from other Member States.[29]

Moreover, competition in the goods market entails not only EU-based competitors, but also non-EU firms. The establishment of the Common External Tariff (CET) for goods

[23] European Commission, Single market: review of achievements, Commission staff working document SEC(2007) 1521, Brussels 2007.
[24] European Commission, 20 years of the European Single market, op.cit.
[25] Council Resolution Council Resolution of 7 May 1985 on a new approach to technical harmonization and standards, 85/C 136/01 of 7 May 1985.
[26] European Committee for Standardisation, Public sector, available at: http://www.cen.eu/cen/NTS/Benefits/Public/Pages/default.aspx, accessed 22.06.2013.
[27] Harrison G.W., Rutherford T.F. and Tarr D.G., Increased Competition and Completion of the Market in the European Union: Static and Steady State Effects, Journal of Economic Integration, Vol. 11, No. 3 (September 1996), pp. 332-365
[28] European Commission, Small Business Act for Europe. Report on the results of open consulation, 22.04.2008. Available at: http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=4073
[29] Eurobarometer, Internal market: awareness, perceptions and impacts, Brussels 2009, p. 40.

upon the creation of Customs Union implied a decrease of the initial tariffs in some Member States. According to the Global Competitiveness Report 2012-2013, the trade-weighted average tariff rate of the EU is the sixth lowest in the world.[30] This suggests that the **trade barriers for non-EU companies are relatively low**. For firms operating within the EU this is translated into an even more increased potential competition. The ease of entry of non-European, highly competitive companies with huge scale advantages might pose a threat to existing European firms. Since the introduction of a lower CET, countries can no longer be protected by national protectionist tariffs, as it was in the 50s.

Recommendations

Based on the analysis of business' benefits and disadvantages stemming from the European free movement of goods, the following recommendations are proposed.

Optimise resource opportunities across Europe

Europe differs vastly when it comes to resource availability in different geographical regions (e.g. easily available wood in Finland that is scarce in Malta) while at the same time offering opportunities to move goods between the MS freely. Europeanising companies are therefore recommended to find countries and locations where the resource availability is the most convenient, while transporting other resources or goods necessary in the value chain. At the same time, European companies have a time-to-market advantage over non-EU companies exporting to Europe and can transport the production factors, goods or semi-finished products between Member States without any intra-EU tariffs. Due to the removal of physical borders within the EU, firms can enhance their competitiveness by reducing their logistics costs.

Compete on quality, efficiency and innovation rather than on price

The introduction of the Single Market with a single currency increased the price transparency across the euro area, while the liberalisation of a number of sectors pushed the prices down. Since price competition in the EU has generally increased[31], businesses are encouraged to seek ways to achieve competitive advantage based on intangible factors rather than on price and costs factors. Among these intangibles, focus on quality, performance, efficiency and innovation is suggested.

Participate in the European standardisation

The standardisation process in the EU is not closed to business. On the contrary, "*anyone industry, SMEs, individuals – who is interested in developing a standard can do so, provided the correct channels are used.*"[32] The easiest access to the standardisation process for European business is through National Standardisation Bodies (NSBs) – members or affiliates of the European Committee for Standardisation (CEN). NSBs actively seek industry input from stakeholders in consultations and projects, and invite experts to work on Technical Committees preparing CEN deliverables. SMEs, typically less endowed in R&D resources,

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[30] World Economic Forum, Global Competitiveness Report 2012-13, Geneva 2012, p. 459.
[31] Harrison G.W., Rutherford T.F. and Tarr D.G., op. cit.
[32] European Committee for Standardisation, How to get involved?, available at: http://www.cen.eu/cen/NTS/How/Pages/default.aspx, accessed 7.08.2013.

have an option of joining national trade federations that ensure that their voices are heard. Involvement in standardisation process is not only a chance to influence the content of standards so that they are based on own business needs, but also a knowledge-sharing exercise that allows to anticipate future trends in its own industry.

4 Integration of the market for services

Services (economic and non-economic) account for approximately 70% of the EU GDP.[33] Nevertheless, there is neither a wide nor a deep internal market for services. The services that are *potentially* tradable in the internal market could amount to around 40% of the GDP, twice as high as the current intra-EU trade in goods (22% in 2011), while the *actual* trade in services is only one fourth of the intra-EU trade in goods, 5.5% in 2011.[34] To some extent, the differences in those levels result from heterogeneity, low transportability and tradability of services.[35] Nevertheless, the persistent price dispersion for services across the EU suggests a lack of integration in the sector and remaining intra-EU barriers to trade in services.

The services market in the EU is essential for companies, as they use services as input and deliver services as output. The European integration of services market brought several benefits for business: from facilitation of cross-border provision of services and establishment of points of single contact to opening of cross-border public procurement. The disadvantages for business identified below do not stem directly from the EU integration in the services market, but rather from the lack thereof - mostly from the lack of completion of a true Internal Market for services in the EU, as can be seen in Table 4.

Table 4. Aspects of free movement of services of relevance to business

Relevance to business	Services market in the EU
Benefits	• The horizontal Services Directive aims to remove unjustified burdens to free movement of services and establishes points of single contact for services providers. • Cross-border public procurement is made possible for business. • Liberalisation of the energy, transport and telecommunication sector pushed the respective prices for business and private users down. • Trans-European Networks (TEN) infrastructure investments are made possible thanks to Structural Funds and European Investment Bank's contribution.
Disadvantages	• Even though prices for services have been reduced, there are still alarming price disparities across the EU, which implies persistent barriers to intra-EU trade in services. • Heterogeneity of national regulatory regimes in some sectors implies one-off costs to business upon entering every new national market.
Recommendations	• Use the single points of contact for information and administrative procedures. • Account for different levels of openness of services markets when deciding on your business and corporate strategy.

Source: Own analysis

[33] Eurostat and Pelkmans J., 'Deepening services market integration, a critical assessment', in: Romanian Journal of European Affairs, Vol. 7.4, 2007, p. 2.; European Commission, Single Market for Services, available at: http://ec.europa.eu/internal_market/top_layer/services/index_en.htm, accessed 26.11.2012.
[34] Pelkmans J., 'Deepening services market integration...', op.cit., p. 7.
[35] European Commission, State of the Single Market Integration 2013, COM(2012) 752 final, p. 4. Available at: http://ec.europa.eu/europe2020/pdf/sgmktreport2013_en.pdf, accessed 22.07.2013.

Benefits

Services in the EU fall under sectorial regulatory regimes (financial services, network sector services and transport, professional services, gambling, etc.) and the horizontal Services Directive[36] also called the Bolkestein Directive, tackling lighter regulated sectors (e.g. consultancy, tourism, leisure, sports, private education, legal/fiscal advice, real estate services, construction). The **Services Directive** obliges the MS to remove unjustified burdens to the free movement of services and aims to facilitate the establishment and cross-border provision of services, with **points of single contact for service providers** in each MS.[37] In practice this means that companies should be able to supply services across the EU, even without a need to set up an establishment in other MS and should be able to deal with all the administrative procedures at once through an e-government portal.

Furthermore, thanks to the efforts aimed at **opening up public procurement,** companies are now allowed to bid for contracts to supply goods and services to public authorities in other Member States**.** In 2010, 16% of all EU procurement was publicly advertised and therefore open to cross-border bidding.[38] In the private sector it led to an increase of direct competition and to lower prices., Additional progress has to be made in order to ensure an open market for public procurement for the SMEs.[39]

In energy, transport and telecommunication reducing national monopolies and increasing international exposure in the last two decades have allowed for **competition** at national and European level. Empirical research suggests that the elimination of price control caused a **downward trend in gas and telecommunication prices**[40], which often compose a significant part of costs of doing business. Additionally, the European integration has also led to an increased **investment in infrastructure projects** in transport, energy and telecommunications, like the Trans-European Networks (TENs) which are co-funded by the European Investment Bank and the Structural Funds.[41] Large transport projects have a potential to create **economies of scale**, while better quality of infrastructure is translated into lower distribution costs for business.[42]

Disadvantages

The Single Market for services is nevertheless far from being fully completed with huge **price disparities** or limited mutual recognition in a number of sectors, for instance financial services, network industries (esp. eCommunication services) and professional

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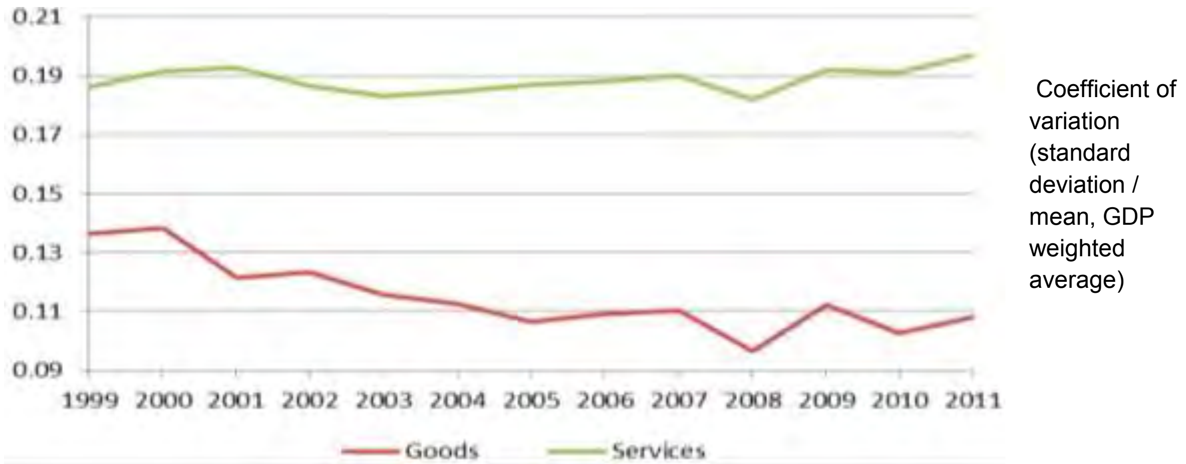
[36] (2006/123/EC). The Services Directive was adopted in 2006 and fully transposed in all EU-27 in May 2012, two-and-a-half-years after the official deadline.
[37] European Commission, Services Directive, available at: http://ec.europa.eu/internal_market/services/services-dir/index_en.htm, accessed 26.11.2012.
[38] European Commission, How the EU Single Market benefits you, DG Internal Market, Brussels 2010.
[39] European Commission, New report on SMEs' access to public procurement in the EU: SMEs disadvantaged, DG Enterprise and Industry, Brussels 2010.
[40] Lejour A., 'Economic Aspects of the Internal Market for Services', in: Pelkmans J., Chang M. & Hanf D. (ed.s), The Internal Market in Comparative Perspective, Brussels/New York, Peter-Lang, 2008.
[41] European Commission, Transnational European Networks, http://ec.europa.eu/ten/index_en.html accessed: 15.10.2011.
[42] Limao N. And Venables A.J., 'Infrastructure, Geographical Disadvantage, Transport Costs', And Trade, World Bank Economic Review, Vol. 15, Iss. 3, pp. 451 – 479.

services.[43] The price discrepancies for eCommunications, for instance, reach alarming levels of 500 – 1000% (outliers excluded) between Member States.[44] Similarly, the European electricity market in Europe shows *"huge differences in price levels"*.[45] Persistent prices disparities (see Figure 2) suggest remaining intra-EU barriers to services provision and insufficient level of competition in the sectors.[46] Since companies use services as inputs too, those price differences prevent from realising full economies of scale and imply additional costs when localising in some Member States.

Figure 2. Dispersion of goods and services prices in single market across the EU Member states



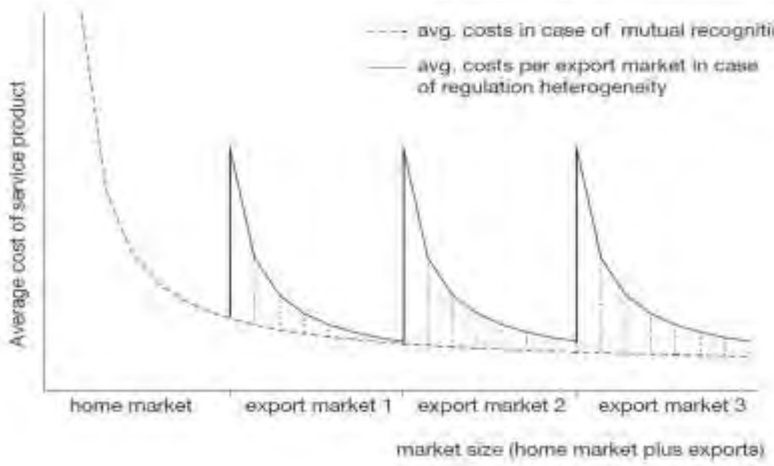
Source: European Commission, State of the Single Market…, op.cit, p. 5. Source of data: Eurostat.

The remaining intra-EU barriers to trade in services result from the **heterogeneity of the national regulatory regimes** (see Figure 3, p. 14). Concrete disadvantages for business in services market include **tight market-entry regulations**, such as start-up licenses, authorization requirements, specific legal forms or obligation of local residence in finance and insurance sectors.[47] They increase fixed costs and prevent foreign competition, hampering the entry of new foreign services providers with new innovative products.

In Figure 3, economies of scale that could be achieved by increasing the volume of supply (entering new markets) when the MR principle prevails are marked with a dotted line. In the EU, because of the need to comply with additional requirements, businesses have to incur one-off costs upon entering every new market. These costs affect their entry decisions. For the firms which want to purchase business services, it implicitly restricts the range of possibilities. Compared to the MR case, the domestic price of business services is higher than necessary.

[43] See for instance: Pelkmans J. and Renda A., 'Single eComms Market? No Such Thing…', in: Communication and Strategy, No. 82, 2011.
[44] Pelkmans J. and Renda A., op.cit.
[45] Sattich T., The EU's Policy to Finalise the Internal Electricity Market, An Initiative of the Commission Based on False Assumpions?, SWP Comments, February 2012, p.2.
[46] European Commission, State of the Single Market Integration 2013, op.cit., p.4.
[47] Lejour A., op.cit.

Figure 3. Cost effect of regulatory heterogeneity in the EU Internal Market



Source: Lejour A., op.cit., p.128.

Recommendations

Although the European services market is not fully integrated, the steps already taken by the EU, especially the Services Directive, create room for easier trade and business operation in services. Given the state of integration, it is recommended that firms in the EU 1) use the existing single points of contact and e-government portals for administrative formalities and 2) account for the different levels of openness of services market when deciding to Europeanise.

Use the single points of contact for information and administrative procedures

Companies willing to explore new business opportunities and expand their activity to another MS are recommended to use the points of single contact to find out all the necessary information and complete administrative procedures online. As a part of the transposition of the EU Services Directive until 2009, each EU country (as well as Norway and Liechtenstein) has set up e-government portals that explain the rules, regulations and formalities that apply to services in a MS, and that enable submitting necessary applications (in some cases also tax and social security procedures).[48] For business, the ability to access information online and to complete administrative procedures at once is very useful, enabling to save time and decrease the cost of 'going European'.

Account for different level of openness of services markets when deciding on your business and corporate strategy

In contrast to the goods market, the Internal Market for services is still neither fully open nor fully competitive in some areas. Persistent problems include price disparities, as well as different regulatory requirements in the Member States. Aware of these problems, companies aiming to Europeanise are recommended to localise accordingly, potentially moving different activities of the value chain to the Member States where the cost can be minimized.

[48] European Commission, Points of Single Contact, available at: http://ec.europa.eu/internal_market/eu-go/index_en.htm, accessed 27.11.2012.

5 Free movement of people and workers

Establishing the freedom of movement of people has been one of the central objectives for the EU for two main reasons.[49] On the one hand, the ability to live and work in any Member State helps create the European identity of its citizens and nurtures the European integration project as perceived by its people. On the other hand, geographical mobility of labour has the potential to increase the efficiency of labour markets and to decrease unemployment, with a better match of demand of supply of workers at their various competence levels. This freedom of movement of workers at the European level is fostered through mutual recognition of professional qualifications and increasing professional competences of people. Nevertheless, the benefits of geographical mobility in Europe are still not fully reaped, as the workers remain highly immobile and inflexible. For an overview of the aspects discussed in this chapter, see Table 5.

Table 5. Aspects of free movement of people of relevance to business

Relevance to business	Labour market in the EU
Benefits	• While labour policy is a national competence, the EU facilitates the workers' mobility by ensuring mutual recognition of professional qualifications and offering single points of contact for the workers. • Thanks to wide learning opportunities, the European workers are multilingual and can continuously foster their professional skills.
Disadvantages	• Labour in Europe is highly immobile, which prevents European companies from reaping the benefits of freedom of movement of workers. • Due to fragmented national regulation and social protectionism, hiring and firing in Europe results in additional costs for companies.
Recommendations	• Benefit from the diverse European workforce. • Consider the immobility of labour when localising business.

Source: Own analysis

Benefits

Labour policy remains within the scope of national legislators. The role of the EU is primarily to ensure coordination between Member States in the aspects relevant to workers. The positive developments that the European integration brought are the **mutual recognition of professional qualifications** of workers together with the **single points of contact** for workers, wishing to know more on how to obtain this recognition. These actions are of great advantage for the workers who are ready to move to other Member States to work. From the perspective of business, talent can be recruited in the EU beyond borders, allowing for more diverse teams of individuals best suited for the position.

The EU is also offering a wide range of **learning programmes** for the people to develop their professional skills. With the Life-Long Learning programme, teacher and student exchange programmes, and initiatives funded from the Social and Cohesion Funds, European integration contributes to fostering of talents and to increasing competencies of

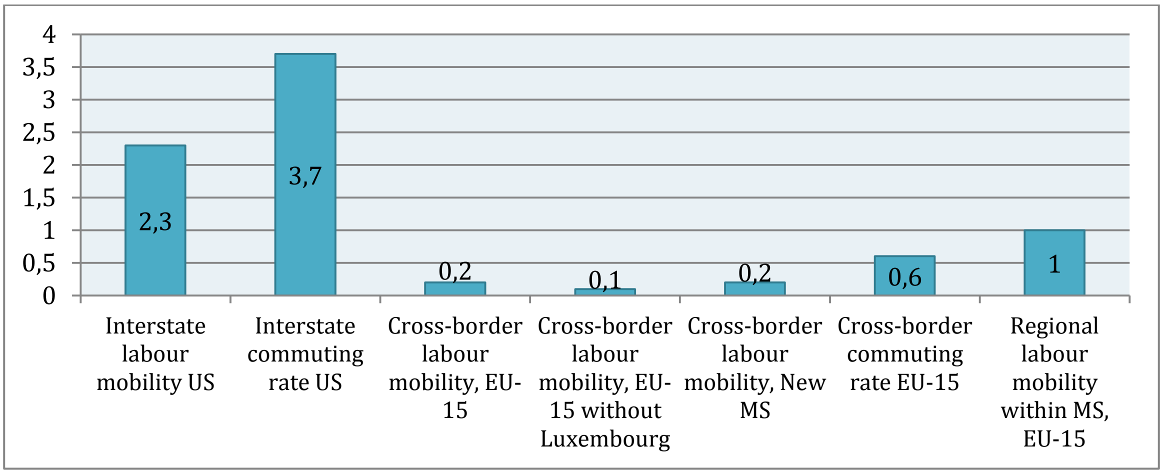
[49] Ester P. and Krieger H., Comparing labour mobility in Europe and the US: facts and pitfalls. OVER-WERK Tijdschrift van het Steunpunt WSE / Uitgeverij Acco 3-4/2008, p. 94.

workers. More than 50% of Europeans are **multilingual**, with 35% speaking three languages or more.[50] Thanks to the freedom of movement of people, Europeans can not only visit other countries, but can also learn languages where they are regularly spoken.

Disadvantages

The above mentioned initiatives as well as the high common standards of health and safety in the workplace and the assurance of non-discrimination in wages and work conditions between men and women should encourage the mobility of the European workforce. Nevertheless, the labour within the EU proves to be **geographically highly immobile** and inflexible[51].

Figure 4. Labour mobility in the EU and the US (%)



Source: Data from: European Commission, Geographic Mobility in the European Union, DG Employment, Social Affairs and Equal Opportunities, Final Report, April 2008, p. 25-28.

Compared to the annual U.S. interstate labour mobility rate of 2.3% in 2008, cross border mobility of 0.1% in EU-15 and 0.2% in new Member States is a very poor result (See Figure 4).[52] The mobility of labour has temporarily increased following the enlargements of 2004 and 2007, with 1.8% of the EU-8[53] population moving to the old Member States in the years 2004 - 2009, yet the effect is largely attributed to the enlargement rather than to increased general mobility and flexibility of labour.[54] Absent enlargement, it is estimated that the mobility of the EU-8 population would have been only about 0.45%.[55]

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[50] Language on the move, Multilingual Europe, Post 18 July 2012, available at: http://www.languageonthemove.com/language-learning-gender-identity/multilingual-europe, accessed 20.08.2013.
[51] At the same time, the mobile workers are often the most qualified, multi-lingual and talented seeking higher wages in the Western MS (or outside of the EU). The ease of freedom of people has thus led to a *brain drain* hampering the access of business to scientific expertise and advanced know-how, especially in Central and Eastern Europe.
[52] European Commission, Geographic Mobility in the European Union, DG Employment, Social Affairs and Equal Opportunities, Final Report April 2008.
[53] Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia.
[54] European Commission, Labour mobility within the EU - The impact of enlargement and the functioning of the transitional arrangements, Study by National Institute of Economic and Social Research, July 2011.
[55] Ibid.

For business, this implies the necessity to locate activities where the needed workforce is available, which may cause difficulties in coordination and management, if the activities are spread geographically. Companies which have the flexibility to **localize part of their production in EU countries where low skilled labour is less expensive** will reap the benefits from such differences, but the high initial sunk costs could prevent SMEs from being able to tap these labour resources.

The free movement of workforce in the EU is also hindered by **fragmented national regulation** and social protectionism. Migrant workers entering a different EU labour market are entirely subject to the regulatory terms and social and control systems set by the host country. When looking for new sources of labour, EU and non EU businesses need to bear the additional costs that result from the necessity to tackle different laws on minimum wages, collective contracting and unions, 'hiring and firing' provisions, working hours per week, flexible labour contracts, qualifications and other entitlements differing among the Member States[56]. The labour market in many MS is not competitive in terms of wages, due to **wage stickiness** and differences in labour income across EU countries.[57]

Recommendations

The recommendations for business pursuing a Europeanisation strategy need to take into account that despite the fact that European labour is often well qualified and multilingual, it is also geographically immobile.

Benefit from the diverse European workforce

Companies in the EU have access to the diverse and multilingual European labour force and should attempt to reap the benefits that emerge in multinational teams. Employing workers originating from various MS can stimulate the exchange of (corporate) cultures, working methods and add value in terms of management methods. The experience of workers from home countries could expand the knowledge base on the country and the market, while possibly allowing the companies to get insight into how competitors approach different matters. Moreover, their language skills could help developing or serving an international client base, securing international contacts and cross-border business connections.[58]

Consider the immobility of labour when localising business

Labour choice can also influence the localisation of the firm, given that European labour is static. When deciding on the establishment of an additional branch, a company needs to take into consideration the labour force within the corresponding country. It might also be a benefit for a company to localise each activity of the value chain in a different Member State. When deciding to do so, the enterprise has to take into account the costs of communication, transport and exchange of information between different business units.

[56] Pelkmans J., European Integration: methods and economic analysis, op. cit. p. 183.
[57] Suder G., Doing Business in Europe, op. cit., p. 114.
[58] Eurobarometer, Internal Market: awareness, perceptions, impacts, op.cit.

6 Free movement of capital

The freedom of movement of capital should help establish *"integrated, open, competitive and efficient European financial markets and services."*[59] The full liberalization of capital movements as a part of Internal Market entered into force on the 1st of January 1994, accompanying the development of Economic and Monetary Union enshrined in the Maastricht Treaty. 'Capital movements' may refer to a number of cross-border operations including: foreign direct investment, real estate investment, investment in securities (like shares or bonds), as well as granting of loans and credits.[60] The benefits of free movement of capital for business lie mainly in access to additional capital, the ability to invest abroad and the elimination of currency risks, while the disadvantages stem from the systemic risk of the interconnected financial system and non-harmonised taxation across the EU. For an overview of the aspects discussed in this chapter, see Table 6.

Table 6. Aspects of free movement of capital of relevance to business

Relevance to business	Freedom of movement of capital in the EU
Benefits	• Access to financial markets across the EU enables companies to raise money where it is the cheapest. • Cross-border investment allows to establish business operations or own companies in other Member States, leading to the spread of innovation. • Introduction of the single currency and the Single Electronic Payments Area eliminates the currency risk and facilitates cross-border payments.
Disadvantages	• The freedom of movement of capital increased the interconnectedness of the financial system posing risks for business in case of sudden movements of capital. • Taxation in the EU is not harmonised, allowing bigger companies to exploit the differences in taxation, putting the smaller companies at a disadvantage.
Recommendations	• Access and move capital easily within the eurozone. • Take advantage of legal opportunities to reduce enterprise tax burden.

Source: Own analysis

Benefits

Perfectly functioning free movement of capital should lead to optimal allocation of resources and a fully efficient and competitive European financial market. Even if this is not yet entirely the case for the European Union, the freedom enables companies to **raise money** where it is the cheapest and thus to optimise their capital management. The increased competition between financial service providers and the rules on disclosure of information make the true risk and reward proportion more transparent. The freedom of movement of capital also allows companies to own other European companies and establish their operations in other MS via **cross-border investments**. Such intra-EU investment is

[59] European Commission, Free movement of capital, available at: http://ec.europa.eu/internal_market/capital/index_en.htm, accessed 19.08.2013
[60] Ibid.

also one of the main '*modalities through which **innovations** are disseminated throughout the Single Market".*[61]

The creation of the Monetary Union with a single currency (currently used in 17 of the 28 Member States), led to the **elimination of currency risks** for business. However, the currency risk still does exist when operating between countries that do use the euro and the ones with own currency not pegged to the euro (e.g. Poland, Romania). The exchange costs before the euro were estimated at the level of *"€20 to 25 billion per year in the EU (as much as 0.3% to 0.4% of GDP) – much of it incurred as companies transferred goods, people and capital around Europe."*[62] The savings due to removal of these costs are a direct benefit of European integration for business. Additionally, the introduction of the Single Euro Payments Area (SEPA) harmonised the retail payments, enabling business and customers to make cross-border electronic payments as easily as domestic ones.[63]

Disadvantages

At the same time, the free movement of capital entails potential disadvantages for companies, such as the uncertainty of the business environment in case of **sudden movements of capital**, for instance when changes in the economic environment push investors to unexpectedly withdraw their capital, as was the case in the current euro-crisis. A common currency leads to higher interconnectedness between financial agents and consequently to an **increase in the systemic risk**, which may undermine the stability of the whole financial system, its adaptability to external shocks and, therefore, negatively influences the economic activities of business.

The **initial convergence of the long-term interest rates** immediately after the introduction of the euro (see Figure 5) was perceived as beneficial too – increasing borrowing capacity in peripheral economies and easing the access to credit of companies.[64] Nevertheless, as the financial crisis brought to the fore, the reduction of rates was not accompanied by a respective increase in productivity levels, which the markets started to recognise following the outburst of the global financial crisis in 2008. After the restructuring of Greek debt in 2011 and 2012, the fear associated with the single currency and free movement of capital is that of contagion between the Member States, negatively affecting the business environment of the countries in the crisis.[65]

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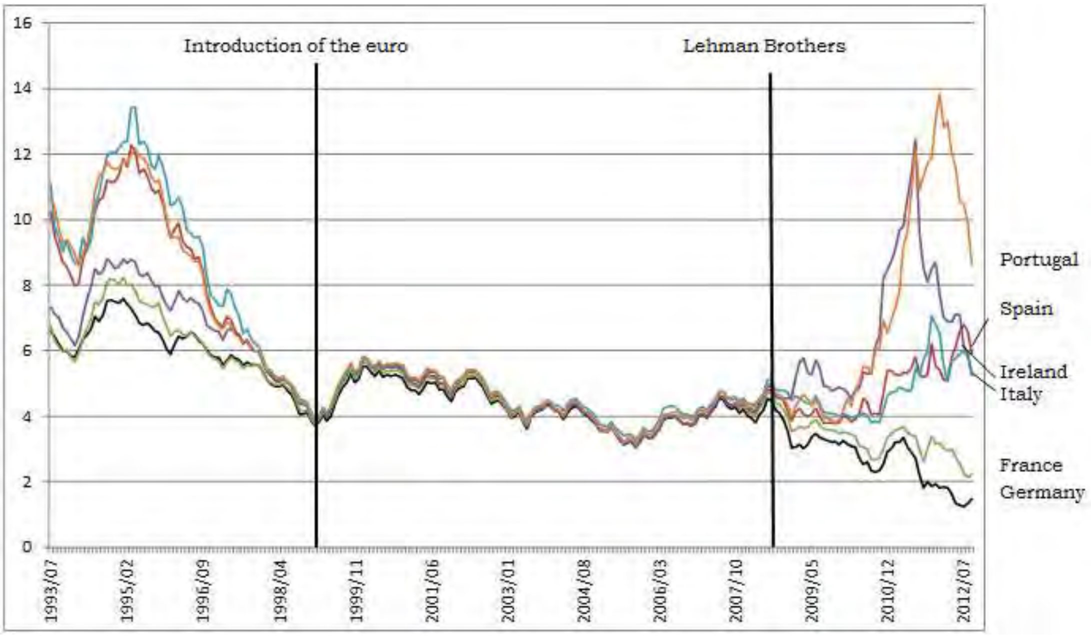
[61] European Commission, State of the Single Market Integration 2013, op. cit., p. 6.
[62] European Commission, Why the euro? Business benefits, DG ECFIN, available at: http://ec.europa.eu/economy_finance/euro/why/business/index_en.htm, accessed 28.11.2012.
[63] European Central Bank, Single Euro Payments Area, http://www.ecb.int/paym/sepa/html/index.en.html, accessed 26.11.2012: *"The deadline for* [implementation of SEPA rules in] *the euro area is 1 February 2014 and for non-euro area Member States 31 October 2016. As of these dates, the existing national euro credit transfer and direct debit schemes will be replaced."* Nevertheless, many countries have already fully migrated their payment systems to SEPA.
[64] Jimeno J.F. (ed.), Spain and the euro. The first ten years. Banco de Espana, Madrid, 27.02.2009, p.15.
[65] Dreger J., Why is sovereign debt restructuring a challenge? The case of Greece, Bruges European Economic Policy Briefing no°24, Bruges, 2012, available at: www.coleurope.eu/beep

Figure 5. Eurozone 10-year government bonds interest rate (%)



Source: ECB monthly data, until September 2012.

Finally, despite the gradual integration of financial markets, differences between Member States remain when it comes to financial transaction costs and a **non-harmonized taxation** at the EU level. Small enterprises (which often are the most innovative) and domestically-operating family-owned businesses do not have the capacity to exploit these variations, while the large multinational enterprise can benefit from **profit shifting**, by moving profits to MS with the lowest tax burden.[66]

Recommendations

While the EU is on its way to a truly integrated, open and efficient financial market, businesses in the EU have the following recommendations to consider.

Access and move capital more easily within the eurozone

In order to reap the benefits of the single currency – reduction of exchange rate risk, lower transaction costs, larger 'home' market, lower uncertainty – companies should consider using the euro as their currency for transactions and investment across the EU, even if their domestic currency is different. With the gradual harmonization of financial market rules and the freedom of capital flows, the companies in Europe should move capital to those parts of the euro area where it can be used the most effectively. Similarly, the companies can raise capital where it is the most beneficial for them, for example Luxembourg which is currently the most popular country in Europe to issue private bonds[67].

[66] Molle W., The economics of European integration: theory, practice and policy, 5th edition, Ashgate, Hants, 2006, p. 136.
[67] Baker&McKenzie, The Luxembourg Stock Exchange: A Choice Place for Listings and Cross-Border Offerings, 31.01.2012, available at:

Take advantage of legal opportunities to reduce enterprise tax burden

The lack of convergence of tax systems within the European Union can create opportunities for companies willing to legally exploit these differences. Firms can transfer the costs and revenues between mother company and subsidiaries from one Member State to another or they can localize in European 'tax havens' like Luxembourg, Ireland or Malta, taking into consideration the taxation rate. When shifting the costs to the location with a higher tax rate and the revenues to the location with the lower tax rate, the firm can minimise the amount of taxes it is paying.

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http://www.bakermckenzie.com/files/Uploads/Documents/Locations/Luxembourg/br_luxembourg_listinginluxembourg_2012.pdf

7 Technology and Innovation: Research & Development, Intellectual Property

Competitive advantage entails innovation as well as constant deepening and widening of capabilities. Traditionally, companies have faced a trade-off between decentralized innovation and learning on the one hand, and global diffusion and replication of knowledge on the other hand.[68] The EU offers a number of programmes to stimulate innovation, and by removing borders enables the development of clusters. Nevertheless, the fragmentation of the European market for innovation (particularly the fragmentation of patent rights) is hampering private research and development of companies aiming to Europeanise. For an overview of aspects discussed in this chapter, see Table 7.

Table 7. Benefits and disadvantages for business stemming from 'a single market for innovation'

Relevance to business	Technology and innovation
Benefits	• Innovation is one of the pillars of the Europe 2020 strategy with a variety of innovation support systems and funding schemes for enterprises. • Removal of economic borders facilitates the creation of highly innovative European cross-border clusters.
Disadvantages	• European Union lags behind the USA in terms of innovativeness. • The cost of obtaining a (European) patent is much higher in the European Union than in the US, with a complicated fragmented procedure for application in several Member States.
Recommendations	• Benefit from European framework for business services and innovation. • Localise in European clusters to gain on innovation.

Source: Own analysis

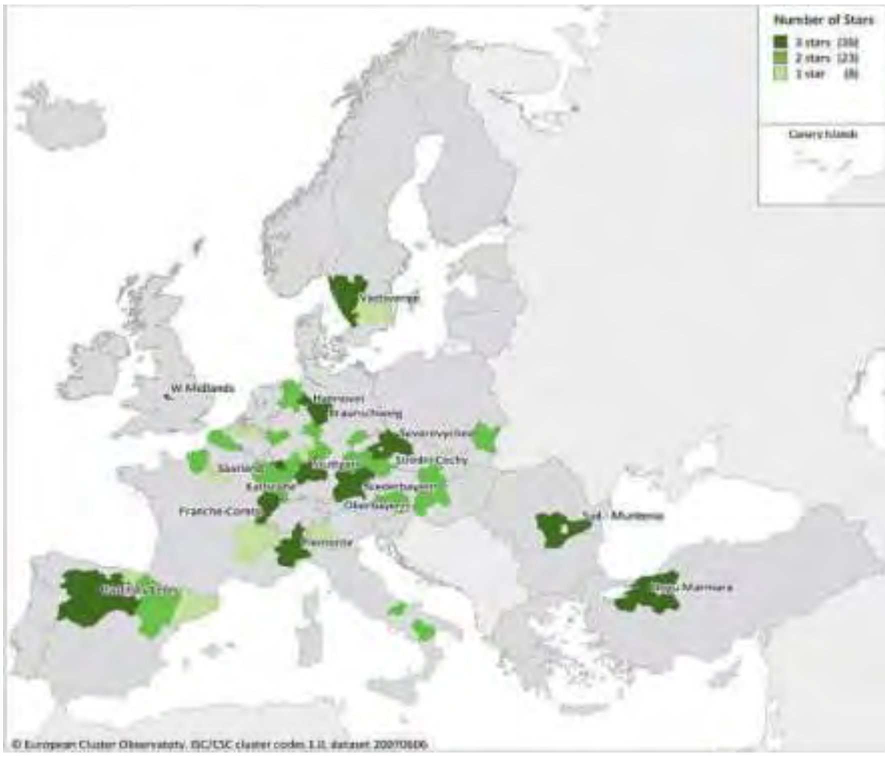
Benefits

Innovation is at the heart of the Europe 2020 strategy for a smart, sustainable and inclusive economy. The EU facilitates cross-border cooperation and technology transfer through a number of **innovation initiatives** like the "European Research Area" and 'European Innovation Partnerships', which bring together the stakeholders to coordinate investment and mobilise demand to ensure that the innovations are brought to the market. The European integration has also led to the creation of networks, like European Business and Innovation Centre Network, connecting innovative SMEs and entrepreneurs and offering services aimed at modernising the companies, their operation and products.[69] The EU programs and activities include support schemes for public procurement or funding for a more industrially viable innovation, which is a benefit especially for SMEs facing difficulties to finance research projects.[70] Probably the most important support schemes are the so called Framework Programmes with the current Seventh Framework Programme for Research[71]

[68] "*Innovation is stimulated by diversity and autonomy, while its exploitation and diffusion require critical mass and coordination.*" Grant R., Contemporary Strategy Analysis, op. cit. p. 388.
[69] European Business and Innovation Centre Network, home page. Available at: http://www.ebn.be/Default.aspx, accessed 20.08.2013.
[70] European Commission, Innovation Union, a Europe 2020 initiative, available at: http://ec.europa.eu/research/innovation-union/index_en.cfm, accessed 12.10.2011.
[71] European Commission, Research and Innovation, FP7, available at: http://ec.europa.eu/research/fp7/index_en.cfm, accessed 18.10.2011.

(FP7) and a budget of about €50 billion for 2007 – 2013 and the upcoming Horizon 2020 Programme with €80 billion budget for 2014 – 2020, out of which 18 million euro will specifically be dedicated to key technologies for industry.[72] On top, the Competitiveness and Innovation Framework Programme (CIP), with an overall budget of €3.6 billion for 2007 – 2013 and the follow-up Programme for the Competitiveness of enterprises and SMEs (COSME) 2014 – 2020 with the budget of €2.3 billion offer SMEs access to finance and help them operate outside their home markets. [73]

Figure 6. Leading Automotive Clusters in Europe



Source: European Commission, The Concept of Clusters and Cluster Policies and Their Role for Competitiveness and Innovation: Main Statistical Results and Lessons Learned, Commission Staff Working Document SEC(2008) 2637, p. 26. The figure is based on data by European Cluster Observatory.

At the same time, the European integration and the removal of economic borders facilitated the creation of **clusters** - *"geographically proximate groups of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities."*[74] Companies thrive in the presence of related and supporting industries in several industry hubs and networks, like the banking sector of Benelux with France and Germany,[75] the ICT cluster between Germany and Scandinavian regions,[76] the glass cross-

[72] European Commission, Research and Innovation, Horizon 2020 - the EU Framework Programme for Research and Innovation, available at http://ec.europa.eu/research/horizon2020/index_en.cfm?pg=h2020, accessed 20.08.2013.
[73] European Commission, Competitiveness and Innovation Framework Programme (CIP), available at: http://ec.europa.eu/cip/, accessed 17.10.2011.
[74] Porter M. Clusters and the new economics of competition, Harvard Business Review, Vol. 76, 1998, p. 78.
[75] Sorensen K. and Gutiérrez J.M., Euro area banking sector integration, European Central Bank Working Paper, No. 627, May 2006, p. 7.

border cluster in Upper Austria and Bohemia (Czech Republic)[77] or the automotive clusters between Germany and France (see Figure 6). Clustering leads to the accumulation of knowledge, fine specialization with higher value-added and **innovation as a positive externality**, to the benefit of business.

Disadvantages

While the Europe 2020 strategy brought about a number of positive initiatives, Europe still lags behind the US and other economies in terms of its innovativeness. Out of 16 indicators of innovativeness, the US beats Europe in 12 "*including knowledge (higher education and number of researchers); innovation (business and government R&D* [spending]*); information technology (IT investments, e-government, and broadband); overall business climate; entrepreneurship (new firms and venture capital), and productivity.*"[78] The EU spends about 2% of GDP on R&D (private and public spending combined), while the US is close to 3%.[79] Underinvested European companies face a tough competition from countries where conditions are more favourable.

Additionally, the fragmentation of the European market for innovation (particularly the fragmentation of patent rights) is hampering private research and development of companies aiming to Europeanise. Obtaining a **patent in Europe is very expensive and complex**.[80] Currently, an inventor company wishing to obtain patent protection in EU Member States needs to first file an application in three languages to the European Patent Office (EPO) and then request additional validation (with potential translations) in every country. Respective national courts then rule on the patent, which could signify that the innovation has different patent protection in each MS. The administrative and translation costs of the process reach around €32,000 – €36,000, while the costs for the US patent are much lower, on average €1,850.[81] Fortunately, in December 2012 a political agreement was reached to introduce a unitary patent for the EU from 2014 onwards. Patent protection will be granted across almost the entire EU[82] after single patent application in one language to the EPO at a decreased cost below €5,000, though still significantly higher than the US cost.[83]

Recommendations

While the EU is doing much to increase its competitiveness and boost innovation to secure sustainable growth, there is still room for improvement in the policy area. The

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[76] Hansen P. and Serin G., The European ICT clusters – an overview of selected ICT clusters in Europe, 2010, available at: http://rucforsk.ruc.dk/site/files/32956338/the_european_ict_clusters_web_0.pdf, p.9.
[77] Ibid.
[78] Atkinson, Robert D. and Andes, Scott M., The Atlantic Century: Benchmarking EU & U.S. Innovation and Competitiveness. European-American Business Council. July 2011, available at: http://www.itif.org/files/2011-atlantic-century.pdf.
[79] Eurostat and World Bank data for 2011 and 2012.
[80] European Commission, Commission proposes unitary patent protection to boost research and innovation, Press release, Brussels, 13.04.2011.
[81] Ibid.
[82] Spain and Italy objected the new single patent because of the language regime, which focuses on three languages: English, German and French and overlooks Italian and Spanish.
[83] Gardner A., Deal struck on 25-country single European patent, European Voice, 13.12.2012, available at: http://www.europeanvoice.com/article/imported/deal-struck-on-25-country-single-european-patent/75968.aspx, accessed 15.12.2012.

companies wishing to Europeanise should reap the benefits of the existing innovation framework and use the opportunities that the European integrations brought about.

Benefit from the EU framework for business services and innovation

Any European firm should take into consideration possibilities of use of different EU frameworks and funds for innovation development, the structural and regional funds, and packages for innovation like the Seventh Framework Programme or the Competitiveness and Innovation Framework Programme (CIP). Similarly, firms in Europe can submit applications for projects co-financed through the EU structural and regional funds, like the European Social Fund or European Regional Development Fund with respective budgets of €75 billion and €201 billion, for the years 2007 – 2013. The relevant projects could fall under the 'Competitiveness and Employment' priority area.

Localise in European clusters to gain on innovation

European firms wanting to maintain a certain level of innovation should take into consideration a possible delocalisation to the relevant cluster of related and supporting industries which is specialized in their domain. The most important advantage of clusters is that they create important synergies between the concerned industries. They allow for accumulation of knowledge within one hub and create positive externalities, in which one company can benefit from an innovative solution of another.

8 Closing remarks

The EU is a complex and constantly changing business environment. Since the **creation of the Single Market – the very essence of European economic integration**, the EU has experienced an unprecedented boom in intra-EU trade and a gradual opening of the borders for unrestricted freedom of movement of goods, services, labour, capital (and codified technology). Although the Single Market in many areas is still far from complete, the large part of it is functioning well. The gradual liberalisation, (smart) regulation and de-regulation created both opportunities and limitations for companies aiming to Europeanise.

A decision to 'go European' requires an assessment of a number of factors: competitive advantage of both the company and comparative advantage of the host country, trade-offs between globalisation and localisation, and modes of entry given the available resources. Whereas the decisions need to be taken on a case-by-case basis, taking into consideration firm's own capabilities and resources as well as industry specificities, several recommendations for business willing to Europeanise can be made, based on an analysis of the regulatory macro-environment of the EU. Those recommendations stemming from specific characteristics of the EU regulatory *acquis* have been presented in this paper for each of the four freedoms of the Internal Market and the general regulatory environment of the EU.

In fact, with the European economic integration process at full speed and the economic borders between Member States removed, 'becoming European' becomes inevitable for companies. As competition in most of the markets is intensifying, internationally present companies have easier access to cheaper resources and more knowledge, which makes them better equipped for product innovation, and indirectly: lower prices, better products and shorter product life cycles.[84]

In the EU, the complex regulatory environment poses another challenge and opportunity: the enterprises most aware of the logic of the Single Market in its main policy areas will be best suited to take full advantage of the European project. The task is not trivial, with the on-going process of completion of a true Single Market and over 2000 legislative acts (of different importance) adopted every year.[85] Specific recommendations for business need to be continuously updated and adjusted. Above all, any company willing to be successful in the EU has to **become a learning organisation,** responsive to the advancements of the macro-environment. The ability to anticipate the regulatory developments and to adjust one's own business and corporate strategy accordingly is the key to achieving sustainable competitive advantage in the European Union.

[84]Somers F.J.L (ed.), European Business Environment, Doing Business in the EU, First edition, Noordhoff Uitgevers Groningen/Houten, 2011, p. 387.
[85] Eur-Lex database, Statistics, available at: http://eur-lex.europa.eu/Stats.do?context=legislative&date=2011, accessed 29.08.2013. The data (basic and amending acts) in the last five years: 2009 – 2177 acts, 2010 – 2067 acts, 2011 – 2332 acts, 2012 – 2057acts, 2013 (July) – 1278 acts.

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