Diversification and Internationalization Strategies in the European Single Market: the British Exception

This article examines the long-run impact of the 1992 completion of the European Single Market on the diversification and internationalization strategies of European business. It does so at a particular moment of crisis, the likely exit of the United Kingdom from this market and the European Union as a whole ('Brexit'). We find that completion of the European Single Market is indeed associated with significant and widespread changes in the strategies of European businesses between 1993 and 2010. In general, European business has converged on more focused diversification strategies and followed similar patterns of internationalization. The most significant exception is the consistently low level of British business's commitment to European markets. The distinctiveness of British internationalization strategy is, in a sense, Brexit foretold.

Since its initial conceptualization in the mid 1980's the European Single Market has been central to the European project and core to the constitutional order of the European Union[1]. Coinciding with the expansion of the European Union and the process of German unification the program is considered to be of profound historical significance[2] and has been credited with steering the European Union out of a profound crisis.[3] Driven by a perceived decline in Europe's position in the global economy, a key aim was the enhancement of European competitiveness.[4] This ambition was reflected in the emphasis placed on the global competitiveness of European firms in the key 1993 White Paper on *Growth, Competitiveness and Employment*, as well as in attempts to create a European

[1] For a consideration of the significance and context of the creation of the Single Market see, for example, Wayne Sandholtz and John Zysman, "1992:Recasting the European Bargain", *World Politics*, 42, no.1 (1989): 95-128, as well as Bruce, Leigh, Europe's Locomotive, *Foreign Policy*, 78, (Spring 1990): 68-90. For a history of the negotiations leading to the formation of the Single Market see Andrew Moravcsik, "Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community", *International Organisation,* 45, no. 1 (1991): 19-56.

[2] For a discussion in the wider historical context see, for example, Harm G. Schroter, "The German Question, the Unification of Europe and the European Market Strategies of Germany's Chemical and Electrical Industries, 1900-1992", *Business History Review*, 67, no 3 (Fall 1993).

[3] Neil Fligstein and Iona Mara-Drita, How to Make a Market: Reflections on the Attempt to Create a Single Market in the European Union, *American Journal of Sociology*, 102, no. 1 (1996): 1-33.

[4] L. Alan Winters, The Welfare and Policy Implications of the International Trade Consequences of "1992", *The American Economic Review*, 82, no. 2 (1992): 104 – 108.

Company Statute.[5] The primary means for achieving enhanced competitiveness were the twin policies of liberalization of markets and harmonization of regulations.[6] In short, European competitiveness was to be enhanced through the transformation of the European competitive environment.[7]

In this article we explore the extent to which this transformation of the European competitive environment was reflected in changes to the corporate strategies of European firms, both in terms of their product diversification and their internationalization. New competitive pressures are expected to stimulate both convergence on more efficient patterns of diversification and greater involvement in international markets. At the same time, the opening of geographically-adjacent markets should provide opportunities for more intra-European expansion.

We focus on diversification and internationalization for a number of reasons. With regard to diversification, we build on a well-established tradition that has linked questions about the fate of the diversified firm in Europe to the position and competitiveness of 'European' business in the international economy.[8] Initially, this was driven by the desire to understand the ability of European business to respond to the American competitive challenge.[9] However, diversification is much more than a matter of firm-level

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[5] Ben Rosamond, "Imagining the European Economy: 'Competitiveness' and the Social Construction of 'Europe' as an Economic Space" *New Political Economy* 7, no. 2 (2002): 157-177: 169

[6] Andrew Moravcsik 1991, Negotiating the Single European Act: National interests and conventional statecraft in the European Community, International Organization 45, no. 1 (1991): 19-56. Damien J. Neven, "Regulatory Reform in the European Union", *American Economic Review*, 82, no. 2 (1992): 98 – 103. For an early economic analysis that linked economic liberalization and economic integration in Europe see Gottfried Haberler, Economic Aspects of a European Union, *World Politics*, 1, no. 4 (July 1949): 431 – 441.

[7]See Bram Bouwens and Jost Dankers, the Invisible Handshake: Cartelization in the Netherlands, 1930 − 2000 *Business History Review* 84, no.4 (2010): 751 − 771; Anna Bottasso and Alessandro Sembenelli, Market power, productivity and the EU single market program: Evidence from a panel of Italian firms, *European Economic Review*, 45 (2001): 167-186. Also note the European commission document: "Commission of the European Communities, 'The Competitiveness of European Enterprises in the face of Globalisation—How it Can be Encouraged', communication from the Commission to the Council, the European Parliament, the Committee of the Regions and the Economic and Social Committee, Com (98) 718 final, (Brussels: 1999).

[8] Derek F. Channon, *The Strategy and Structure of British Enterprise*, Unpublished HBS Doctoral Thesis (Boston: 1971); Gareth P. Dyas & Heinz T. Thanheiser, *The Emerging European Enterprise*, (Boulder: 1976); Gareth P. Dyas, "*The Strategy and Structure of French Industrial Enterprise*" Unpublished HBS Doctoral Thesis (Boston: 1972).

[9] Jean-Jacques Servan Schreiber, *The American Challenge* (New York, 1969); Marie-Laure Djelic, *Exporting the American model: The post-war transformation of European business*, (Oxford, 1998).

competitiveness. It has become an index of fundamental differences in patterns of economic organization[10] and underlying models of practice,[11] particularly between different types of developed capitalist economies. Thus for example, in the European context, changing patterns of diversification amongst large French, German and British firms have been used to explore the extent of convergence on a single model of economic organization.[12]

Turning towards internationalization, despite usually being considered separately from diversification, this too has been used as an indicator of fundamental differences in national patterns of organization.[13] By distinguishing between intra-European and extra-European internationalization we reflect at the firm-level two different sources of efficiency gains through European integration: on the one hand, there are the scale benefits potentially available from all kinds of internationalization; on the other hand, there are the increased pressures for efficiency brought about by the admission of new competitors into domestic markets from adjacent European countries.[14] Together with our consideration of product diversification, this allows us to offer a fuller picture of how the

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[10] Veronica Binda. "Strategy and structure in large Italian and Spanish firms, 1950–2002." *Business History Review* 86 no. 3 (2012): 503-525. Thomas Heinrich, "Product diversification in the U.S. pulp and paper industry: The case of international paper, 1998-1941", *Business History Review* 75 no 3 (Autumn, 2001): 467-505.

[11] Davis, Gerald F., Kristina A. Diekmann, and Catherine H. Tinsley. "The decline and fall of the conglomerate firm in the 1980s: The deinstitutionalization of an organizational form." *American Sociological Review* (1994): 547-570: 548

[12] Richard Whittington, Michael Mayer, *The European Corporation* (Oxford, 2000); Binda, Veronica. "Strategy and structure in large Italian and Spanish firms, 1950–2002."

[13] For conceptual articles consider Alain Verbeke and Liena Lano, The New Internalization Theory and Multinational Enterprises from Emerging Economies: A Business History Perspective, *Business History Review* 89 (Autumn 2015): 415-445; as well as Jones, Geoffrey, and Tarun Khanna. "Bringing history (back) into international business." *Journal of International Business Studies* 37, no. 4 (2006): 453-468. Illustrative empirical papers include: Alfred D. Chandler Jr., "The Growth of the Transnational Industrial Firm in the United States and the United Kingdom: A Comparative Analysis," *Economic History Review* 33, no. 3 (1980): 396–410; Pierre-Yves Donze, Siemens and the Construction of Hospitals in Latin America, 1949 − 1964, *Business History Review* 89 (Autumn 2015), 475 − 502; Monica Kenely, "Does Organisational Heritage Matter in the Development of Offshore Markets? The case of Australian Life Insurers", *Business History Review* (Summer 2013): 255-277; Helge Ryggvik, "A short history of the Norwegian Oil Industry: From Protected National Champions to Internationally Competitive Multinationals", *Business History Review*, 89 (Spring 2015): 3-41. For an overview of historical considerations of the multinational enterprise, particularly on the pages of the Business History Review please see Wilkins, Mira Wilkins. "The History of Multinationals: A 2015 View." *Business History Review* 89, no. 03 (2015): 405-414.

[14] L. Alan Winters, The Welfare and Policy Implications of the International Trade Consequences of "1992", *The American Economic Review*, 82, no. 2 (1992): 104 – 108.

strategic orientation of European firms evolved subsequent to the formation of the European Single Market.

Our empirical focus is on the period following the completion of the internal market in the early 1990s, through an era of intensified pressures of globalization,[15] up until the immediate aftermath of the recent global financial crisis in 2010. Following calls to consider in more detail the strategic trajectories taken by firms outside of Europe's larger economies,[16] we include not only firms from the three largest economies of France, Germany and the United Kingdom, but also the mid-sized economies of Sweden and Finland in the north and the mid-sized Italian and Spanish economies in the south. With regard to diversification in particular, we consider the extent to which patterns are distinctively 'European' or indicative of wider globalization[17] by comparing European trends with those of the United States. We track the diversification and internationalization strategies of all publicly-listed firms in the focal economies. However, for the three largest economies, we also focus on the 100 largest industrial firms, in terms of revenue, as this permits us a comparison to previous studies that focused on the same sampling approach,[18] and allows us to consider possible ownership effects.

As we shall show, the strategic trajectory followed by European business demonstrates both substantial commonality and distinctiveness. After a long-run trend towards greater diversification in the post-war decades, European firms have recently tended to focus their business portfolios, markedly more so than American firms. Internationalization, however, has followed a less convergent pattern: as we have indicated, British business's overseas strategies stand out as markedly less European in internationalization.

In the following, we briefly consider how the formation of the Single Market may have

[15] Rolv Petter Amdam, Over Bjarnar, "Globalization and the Development of Industrial Clusters: Comparing Two Norwegian Clusters", 1900-2010, *Business History Review,* Vol. 89, no 4 (2015): 661-691.

[16] Veronica Binda. "Strategy and structure in large Italian and Spanish firms, 1950–2002."

[17] Neil Fligstein and Frederic Merand, "Globalization or Europeanization? Evidence on the European Economy since 1980", *Acta Sociologica* 45 no 1 (2002): 7-22

[18] See, for example, Veronica Binda, "Strategy and structure in large Italian and Spanish firms, 1950–2002."

influenced the key strategic dimensions of diversification and internationalization. We then set out our research methods, before considering the general trends of strategic change. To explore the drivers and patterns of diversification and internationalization in more detail, we conclude by presenting selected vignettes of companies that illustrate the trends observed at national levels.

The Influence of the Single Market on Diversification and Internationalization

Alfred Chandler and Edith Penrose[19] recognized that diversification and internationalization, two key dimensions of corporate strategy, are not only shaped by a firms' resource profile and the desire to exploit underutilized resources, but may reflect a complex set of contextual factors. On the resource side these include the nature and structure of external financial markets[20], the supply of appropriate managerial skills[21] available to manage the complexities of diversification strategy[22] as well as external resource markets more generally.[23] On the market side, patterns of diversification and internationalization are shaped by the presence and absence of opportunities in the external environment. They are also influenced by the ability of organizations to exploit these through market development and entry.[24] It is ultimately through the dynamic interaction between the organizations' resources and the external environmental conditions, defined by Penrose as 'productive opportunities'[25], as well as the preference of those who own and manage corporations,[26] that patterns for growth, including

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[19] Richard Whittington, Alfred Chandler, founder of strategy: Lost tradition and renewed inspiration. *Business history review 82*, no. 22008): 267-277; Christos N. Pitelis, Globalization, Development, and History in the Work of Edith Penrose, *Business History Review* 85 (Spring 2011): 65-84.

[20] Pankaj Ghemawat, Competition and Business Strategy in Historical Perspective 76, no. 1 (2002): 37-74; Zuckerman, Ezra W. "Focusing the corporate product: Securities analysts and de-diversification." *Administrative Science Quarterly* 45, no. 3 (2000): 591-619.

[21] Alfred D. Chandler. *Scale and Scope: the Dynamics of Industrial Capitalism*, (Cambridge Mass. 1990)

[22] Thomas Heinrich, "Product Diversification in the U.S. Pulp and Paper Industry: The Case of International Paper, 1898-1941", *Business History Review*, 75, (Autumn 2001): 467-505.

[23] Robert E. Hoskisson, Richard A. Johnson, Laszlo Tihanyi, Robert E.White, "Diversified Business Groups and Corporate Refocusing in Emerging Economies", *Journal of Management* 31, no. 6 (2005): 941-965; Geoffrey Jones, Tarun Khanna Bringing History (Back) into International Business, *Journal of International Business Studies* 37, no.5 (2006): 453-468.

[24] Edith Penrose, *The Theory of the Growth of the Firm*. (London: 1959); Andrea Coli, Multinationals and Economic Development in Italy during the Twentieth Century, Business History Review 88 (Summer 2014): 303-327.

[25] Christos N. Pitelis "Globalization, Development, and History in the Work of Edith Penrose", *Business History Review* 85 no 1 (2011): 65 – 84.

[26] Julia Hautz, Michael C. J. Mayer and Christian Stadler, "Ownership Identity and Concentration:

diversification and internationalization, are shaped.

The European Single Market affects these contextual parameters in a number of profound ways. As we have noted, the creation of the Single Market involved processes of de-regulation at a national level[27] and increased cross-national regulatory coordination,[28] including the pursuit of integrationist policies by the European commission in areas such as competition policy.[29] Policies enabling and encouraging 'freer intra-EC trade'[30] thereby intensified competition through, for example, increasing inter-firm rivalry and reduction of barriers to entry.[31] Such contextual changes can be expected to have profound effects on product diversification and internationalization. With regard to diversification, the increase in competitive pressures is likely to require firms to look for greater efficiencies within individual business units and to leverage corporate resources more effectively across the overall portfolio: both business unit and portfolio gains are more readily achieved through more focused strategies. With regard to internationalization, legal harmonization and liberalization increase the opportunities for firms' expansion into adjacent markets. At the same time, increased competitive pressures increase the incentives for scale economies, available through international expansion within Europe and globally. From an economic perspective, therefore, the construction of the Single Market offered clear incentives to switch corporate strategies towards more focused diversification and increased internationalization within and without Europe.

A Study of their Joint Impact on Corporate Diversification," *British Journal of Management* (2013): 24, 102-106. Michael J. Lynskey, (2006). The locus of corporate entrepreneurship: Kirin Brewery's diversification into biopharmaceuticals. *Business History Review*, 80 no 04 (2006): 689-723.

[27] Jon Pierre, Varieties of capitalism and varieties of globalization: comparing patterns of market deregulation, *Journal of European Public Policy*, 22 no. 7 (2015): 908 – 926.

[28] Neil Fligstein, N., and Frederic Merand, F, "Globalization or Europeanization? Evidence on the European economy since 1980", *Acta Sociologica*, *45* no. 1 (2002), 7-22.

[29] Mark Thatcher, European Commission merger control: combining competition and the creation of larger European firms, European Journal of Political Research, 53, 443-464

[30] L. Alan Winters, The Welfare and Policy Implications of the International Trade Consequences of "1992", *The American Economic Review,* 82, no. 2 (1992): 104-108.

[31] Klaus E. Meyer, "Globalfocusing: From Domestic Conglomerates to Global Specialists", *Journal of Management Studies*, 43, no 5 (July 2006): 1109-1144. Dierx, A.; F. Ilzkovitz, and F. Sekkat. "European Integration and the Functioning of Product Markets: Selected Issues." In *European Integration and the Functioning of Product Markets*, ed. A. Dierx, F. Ilzkovitz, and F. Sekkat (2002): 9–32. European Commission: Special Report Number 2. Ilzkovitz, F.; A. Dierx; V. Kovacs, and N. Sousa "Steps toward a Deeper Economic Integration—The Internal Market in the 21st Century: A Contribution to the Single Market Review." *European Economy, Economic Papers* 271 (2007)

While such economic considerations suggest common lines of strategic development for European firms, a number of factors point to possible differences. First, while the Single Market involved a remarkable harmonization of rules of exchange and an increasing alignment of governance structures, patterns of ownership have continued to exhibit strong national differences.[32] Distinctive national patterns of corporate ownership have already been shown to influence diversification and internationalization strategies in Europe.[33] This putative role for corporate ownership resonates strongly with the notion of varieties of capitalism[34] and the view that national historical paths, shape “differences in capabilities, organizational forms and internationalization patterns of their MNEs”.[35] For example, Berghoff[36] sees the avoidance of diversification as a characteristic of the family model of capitalism represented by the German ‘Mittelstand’. On the other hand, the ‘colonial past’ of the United Kingdom has been argued to account its ‘outward looking commercial tradition’.[37] Cultural and linguistic factors have been shown both to affect the United Kingdom’s acceptance of inward investment and its readiness to invest overseas[38]. This raises a number of interrelated questions about the development of European business in response to the formation of the European Single Market. First, can a notable change in the competitive orientation of European firms be identified? Second, do these changes suggest the formation of a common business space, with increased competition between neighboring countries? Third, to what extent do unique national trajectories in

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[33] Mira Wilkins. "Chandler and global business history." *Business History Review* 82, no. 02 (2008): 251-266; Julia Hautz, Michael Mayer, and Christian Stadler. "Advance and Retreat: How Economics and Institutions Shaped the Fate of the Diversified Industrial Firm in Europe." *International Studies of Management & Organization* 45, no. 4 (2015): 319-341.

[34] Abe de Jong, Ailsa Röell, and Gerarda Westerhuis, Changing National Business Systems:Corporate Governance and Financing in the Netherlands, 1945-2005, *Business History Review* 84 (Winter 2010): 773-798.

[35] Alain Verbeke and Liena Lano, “The New Internalization Theory and Multinational Enterprises from Emerging Economies: A Business History Perspective”, *Business History Review* 89 (Autumn 2015): 415-445.

[36] Hartmut Berghoff "The end of family business? The Mittelstand and German capitalism in transition, 1949–2000." *Business History Review* 80, no. 02 (2006): 263-295.

[37] Geoffrey Jones, *Multinationals and Global Capitalism* (New York, 2005) Alain Verbeke and Liena Lano, The New Internalization Theory and Multinational Enterprises from Emerging Economies: A Business History Perspective, *Business History Review* 89 (Autumn 2015): 415-445. A similar case for the importance of the colonial past has been made in: Teresa da Silva Lopes, “Competing with Multinationals: Strategies of the Portugese Alcohol Industry”, *Business History Review 79,* no. 3 (Autumn, 2005).

[38] Ben Wellings and Helen Baxendale, Euroscepticism and the Anglosphere: Traditional Dilemmas in Contemporary English Nationalism, *Journal of Common Market Studies*, 53, no. 1 (2015): 123-139.

corporate strategies suggest the continuation of national uniqueness in the face of efforts to establish European commonality?

Research Methods

Our empirical analysis falls in two main parts. First we investigate the strategic trajectories of all listed firms in Europe's largest economies of the UK, France and Germany as well as the mid-sized Northern and Southern European economies of Sweden, Finland, Italy, and Spain, from the early 1990s to the onset of the global financial crisis in 2010. Here our sample includes all non-financial companies, - independent of their size - for which data on sales in different product and geographic segments was available between 1993 and 2010 in the Worldscope segment database. The database is based on annual reports. This resulted in a sample of 5415 firms in total.

For our diversification analysis of these firms we used a fine-grained measure of diversification, the entropy measure. [39] This SIC based index has been used extensively[40] and not only considers the number of different product segments a firm is active in but also their relative importance. It is computed as ∑ Pi ln(1/Pi), where Pi is the share of a firm's total sales attributed to product segment i, and ln(1/ Pi) is the weight of each product segment i. We calculated the entropy index by using annual data on a firm's sales in each of its 4-digit SIC business segments. A firm focused on one single business segment has an entropy measure of zero, while the measure increases with increasing product diversity of the firm. Worldscope allows firms to report sale in a maximum of ten different product segments. Hence, the theoretical maximum of the entropy measure is 2.303 for a firm having diversified its sales equally across ten different business

[39] Alexis P. Jacquemin, and Charles H. Berry, C. H. "Entropy measure of diversification and corporate growth" *Journal of Industrial Economics,* 27, no.4 (1979): 359-369. Krishna Palepu, "Diversification Strategy, Profit Performance and the Entropy Measure". *Strategic Management Journal*, 6, no. 3 (1985) 239-255.

[40] See, for example, Harry P. Bowen and Margaret F. Wiersema, "Foreign-based competition and corporate diversification strategy," *Strategic Management Journal,* 26, no. 12 (2005) 1153-1171; Michael A. Hitt, M. A., Robert E. Hoskisson, R. E. & Hicheon Kim, "International diversification: Effects on innovation and firm performance in product-diversified firms," *Academy of Management Journal,* 40, no 4 (1997): 767-798**;** Abhirup Chakrabarti, Kulwant Singh, and Ishtiaq Mahmood, "Diversification and performance: evidence from East Asian firms," *Strategic Management Journal*, 28, no. 2 (2007): 101-120. Robert E. Hoskisson, Michael A. Hitt, Robert Johnson, & Douglas D. Moesel, "Construct validity of an objective (entropy) categorical measure of diversification strategy," *Strategic Management Journal,* 14, no. 3 (1993): 215-235.

segments. The example of British American Tobacco (BAT) illustrates the entropy measure of diversification. Between 1984 and 1989 BAT acquired Eagle Star, Allied Dunbar and Farmers Group to become the largest UK-based insurance group. In 1993 the company generated 46.33 % of its sales from tobacco related business (SIC 2111), while 27.34 % and 26.33 % of its sales came from life insurances (SIC 6311) and accident/health insurances (SIC 6320) respectively. This resulted in an entropy measure slightly above one. In 2007, in contrast, after a decade of refocusing attempts BAT showed an entropy value of zero with 100 % of its sales dedicated to tobacco related activities. The use of this measure allows us to develop a continuous overview of the trajectories of diversification strategies and enables cross-national comparisons. We compare diversification patterns with the US as it is a developed economy, roughly equivalent in size to the internal market to EU. More specifically, the US has typically been considered the reference point for the development of the modern, diversified enterprise. [41]

We capture internationalization with the foreign sales ratio, which indicates the proportion of a firm's total sales from foreign operations. We distinguish between sales in other European countries and outside Europe, as we are particularly interested in whether the integration of Europe changed the pattern of internationalization. Because of the different sizes of their home markets, and the irrelevance of the intra/extra European sales measure, we do not compare European firms' internationalization with that of American firms.

For the second part of our empirical analysis we tighten our focus to examine just the Top 100 industrial firms (by sales) in Europe's largest economies of i.e. Germany, France and the United Kingdom.[42] In doing so we study a subset of firms that has been the focus of the well-established 'Harvard Studies' tradition of the strategic development of large

[41] Channon, "The Strategy and Structure of British Enterprise"; Dyas and Thanheiser, *The Emerging European Enterprise*; Dyas, *The Strategy and Structure of French Industrial Enterprise*. Binda**,** "Strategy and structure in large Italian and Spanish firms, 1950–2002." and Whittington and Mayer, *The European Corporation.*

[42] Youssef Cassis, *Big Business: The European Experience in the Twentieth Century: The European Experience in the Twentieth Century* (Oxford, 1997).

European firms.[43] This allows us to establish whether there are any differences or similarities between the largest firms in the respective economies and their smaller counterparts. Our analysis will be briefer than for all-listed firms, but it also allows us to explore how ownership may have affected strategy adoption. Here we also illustrate the broader trends by offering indicative examples of well-known household names.

Diversification and Internationalization Trends in Europe

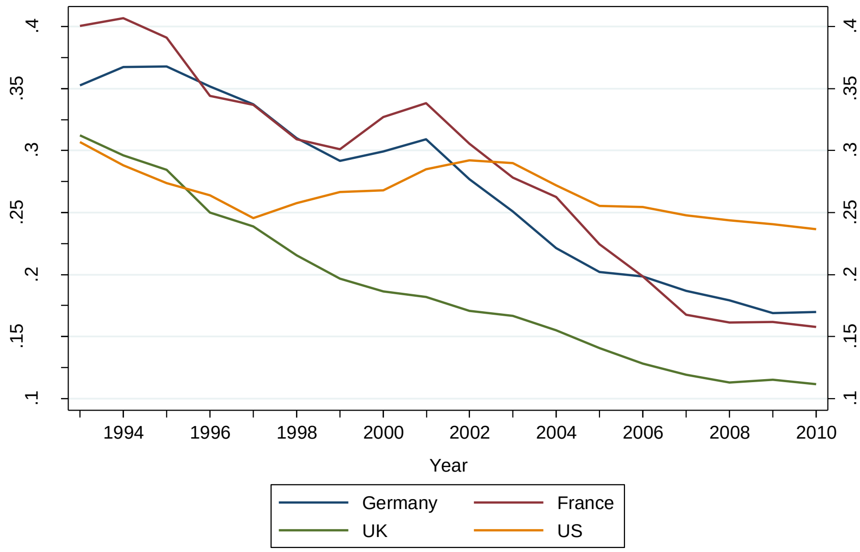
We consider the patterns of diversification and internationalization for all listed firms in two stages: first those of the largest economies, i.e. France, Germany and the UK, and then those of the mid-sized economies of Finland, Sweden, Spain, and Italy.

For all listed firms in the UK, France and Germany, Figure 1 shows a clear downward trend in diversification levels. Overall, the decline in diversification is most pronounced for French business, where the average entropy measure falls from 0.4 in 1993 to just over 0.15 in 2010. German business broadly follows this French trend, though less radically. The lowest level of diversification is that of the British firms, at around 0.11 by 2010.

The trajectories in these large European economies – and, as we shall establish, also those of European businesses more generally – differ from those of US firms. Although diversification levels in the US at the time before and after the financial crisis were lower than in the early 1990s, the difference is much less pronounced and the trajectory less clear. The relative levels of diversification between the US and Europe have reversed over this period, with American business emerging as the most diversified.

[43] Channon, "The Strategy and Structure of British Enterprise"; Dyas and Thanheiser, *The Emerging European Enterprise*; Dyas, *The Strategy and Structure of French Industrial Enterprise*. Binda**,** "Strategy and structure in large Italian and Spanish firms, 1950–2002." and Whittington and Mayer *The European Corporation.*

Figure 1
Strategy Evolution, Germany, France, UK, US, 1993-2010



In terms of internationalization, it has been British firms that have increased their sales outside Europe most radically, rising from about 14 % to 24 % (Figure 2). French extra-European sales have been broadly flat, while German firms enjoyed a surge around the turn of the century. The British firms stand out also in terms of intra-European sales: throughout the period, they have been markedly below those of French and German firms, fluctuating around 7-8 % (Figure 3). German firms present the strongest contrast to the British case, doubling their intra-European sales from about 10 % to nearly 20 %. Siemens, for example, has increased its intra-European sales from 23 % in 1993 to 34 % in 2010.

Figure 2

Foreign sales outside Europe Germany, France, UK, 1993-2010

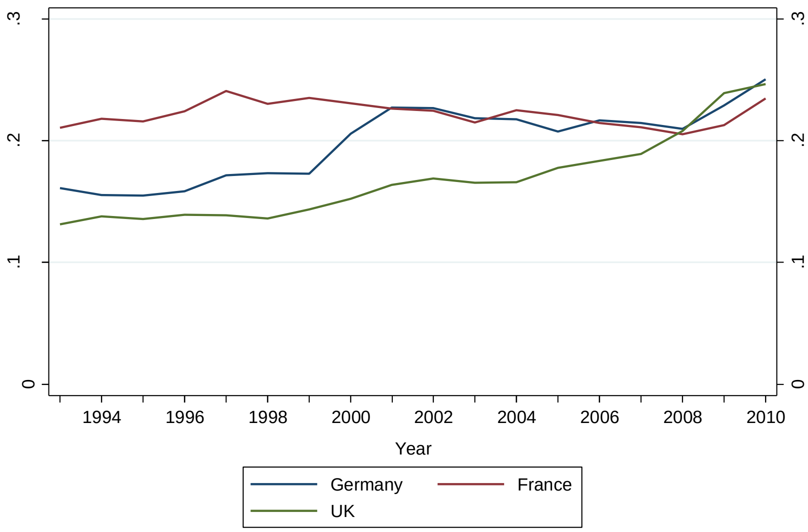
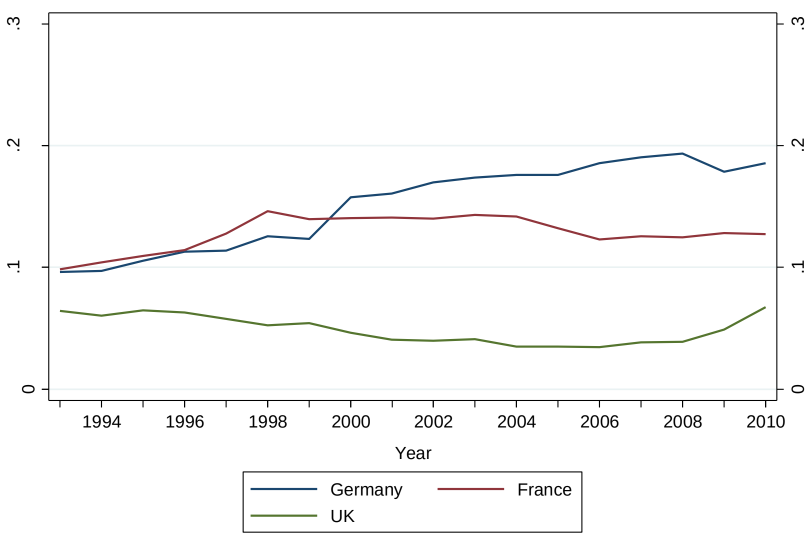


Figure 3

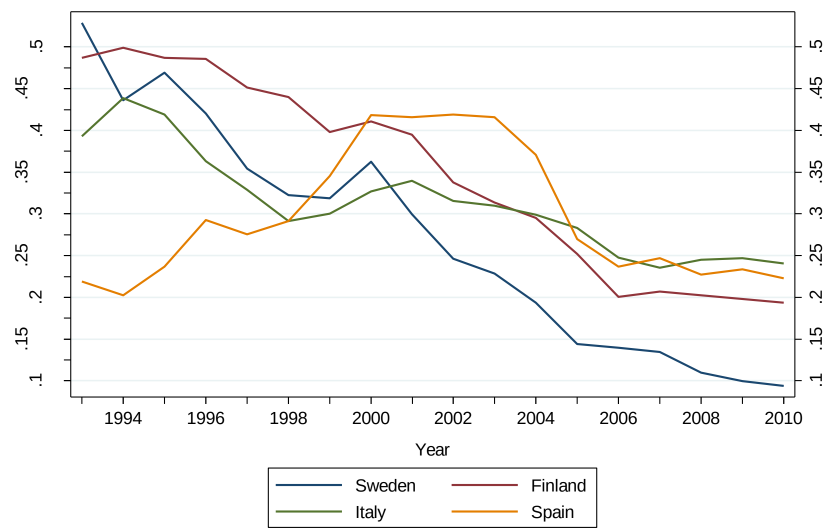
Foreign sales within Europe Germany, France, UK, 1993-2010



Patterns for the mid-sized economies show common trends in terms of diversification, but underline British firms' distinctive status as reluctant Europeans in terms of international sales. To start with diversification, Figure 4 shows both the northern

European economies of Sweden and Finland and the largest southern economy of Italy following an almost identical downward trajectory from 1993 until 2010. Spanish firms show a slightly different pattern, with a surge in diversification in the late 1990s, before turning to the common European trajectory of refocusing from the early 2000s onwards. In other words, firms across a range of European mid-sized economies broadly followed the same refocusing strategies as those in the three largest economies, again distinctive from their American peers.

Figure 4
Strategy Evolution: Northern and Southern European Economies, 1993-2010



In general, firms from the mid-sized economies did not notably expand the proportion of their activities either outside Europe (Figure 5) or within Europe (Figure 6). Italian, Swedish and Finnish firms generally followed uneven paths of internationalization in this period, though there were upticks in the last years. Amongst the four Northern and Southern European countries, only Spanish firms substantially increased their internationalisation, both within and outside of Europe to a significant degree, albeit from a very low level. For Spain, this increase generally represents a catching up in the overall internationalization of its firms. Similar to British firms, they can leverage linguistic and cultural ties which link back to colonial times in South America in particular. The lower level of intra-European sales for Spain – and also Italy – suggests that few firms from these economies are as competitive abroad as their northern counterparts. Despite this, Spanish and Italian firms have roughly twice the level of intra-European sales of British firms by the end of the period. Thus, relative to this group of mid-sized economies, as well as relative to France and Germany, British firms again stand out as reluctant Europeans.

Figure 5

Foreign sales outside Europe: Northern and Southern European Economies, 1993-2010

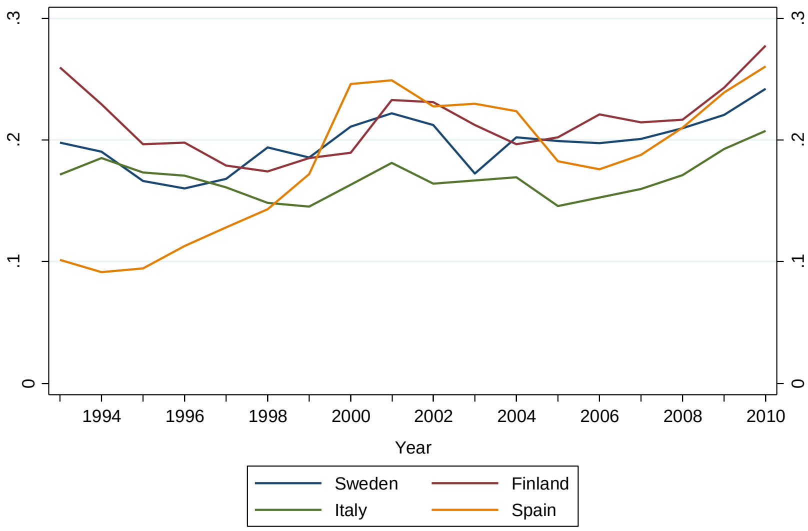
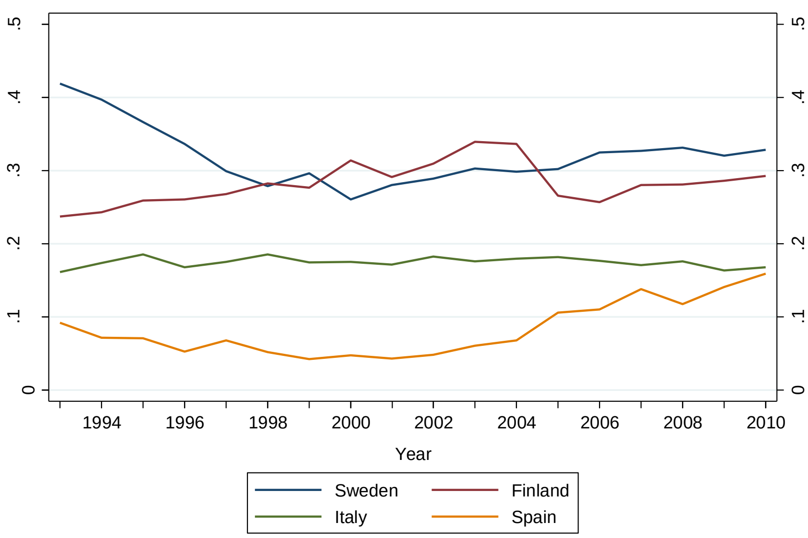


Figure 9

Foreign sales within Europe: Northern and Southern European Economies, 1993-2010



Large Firm Strategies

We turn now to the 100 largest industrial firms in each of France, Germany and the UK, which are comparable to previous studies on product diversification of European corporations.[44] For these largest firms we are also able to trace the impact of ownership and provide some more detailed accounts of diversification patterns. We shall focus here particularly on the strategies of firms where either the state or families were the largest owners, with stakes over 5 per cent.

In terms of diversification, these large firms followed the wider trend by re-focusing after the formation of the Single Market (see Table 1). In each of these countries, large firm diversification reduced by a third between 1993 and 2007. By comparison with the increasing diversification of the post-war period, this suggests a significant strategic change in recent decades.[45]

For many French and German firms in particular, this refocusing activity was in direct response to the opportunities and pressures of the European Single market. For example, Alstom was formed in 1998 out of a merger that brought together the former power and transport activities of the UK-based General Electric Company and the previously privatised French Compagnie Générale d'Electricité.[46] Bailed out by the French state in 2003, Alstom then embarked on a consolidation process that include the disposal of previously central activities, in some cases voluntarily, such as the sale of the industrial turbine business to Siemens[47], in others required by the European Competition

[44] Channon, *The Strategy and Structure of British Enterprise*; Dyas and Thanheiser, *The Emerging European Enterprise*; Gareth P. Dyas, *The Strategy and Structure of French Industrial Enterprise*. Binda "Strategy and structure in large Italian and Spanish firms, 1950–2002."

[45] Although our data is based on a quantitative diversification measure differs from the qualitative measures of the 'Harvard Studies' tradition we can offer some indicative comparison due to the convergent validity of the measures: Robert E. Hoskisson, Robert E., Michael A. Hitt, Richard A. Johnson, and Douglas D. Moesel. "Construct validity of an objective (entropy) categorical measure of diversification strategy." *Strategic Management Journal* 14, no. 3 (1993): 215-235. Previous studies have shown that for France, the proportion of firms adopting a diversified strategy increased from 36% in 1950 to 59% in 1993. In Germany the proportion of diversified firms increased from 40% in 1950 to 77% in 1993, whereas in the UK the figure increased from 27% in 1950's to 82% in 1993. See Derek F. Channon, *The Strategy and Structure of British Enterprise*; Dyas and Thanheiser, *The Emerging European Enterprise*, Dyas, *The Strategy and Structure of French Industrial Enterprise*"; Whittington and Mayer, *The European Corporation.*

[46] Jacques Marseille, *Alcatel-Alsthom. Histoire de la Compagnie générale d'électricité* (Paris:1992).

[47] Hartmut Berghoff, "Varieties of Financialization? Evidence from German Industry in the 1990s." *Business History Review* 90, no. 1 (2016): 81-108.

Commission, such as the sale of its shipbuilding interests. Similarly, for state-owned German utilities firm RWE the divestment of its telecom business and the decision to re-focus on water, gas, electricity and waste management in the late 1990s in the pursuit of increasing scale in its core business through primarily European expansion was driven by an interplay between the market opportunities created by European integration and associated deregulation alongside a simultaneous intensification of competition.[48]

In terms of internationalization, the largest firms, while more internationalized than their smaller counterparts, followed the same nationally distinct trajectories. British firms again are the outliers: for them, the relative importance of foreign sales within Europe declined significantly over the time period whilst sales outside of Europe increased notably (Table 1). The contrast with France is stark. French firms present themselves as particularly enthusiastic 'Europeanizers', with foreign sales inside Europe increasing from 19% to 30%. While for France too sales outside of Europe grew (from 35% to 41%), they did to a much lower extent than for UK firms, which increased from 39% to 55%. For France in particular, such 'Europeanisation' has been particularly pronounced in sectors with strong political and regulatory involvement, such as electricity and energy but also the aerospace and defence sectors[49]. The contrast with the UK is well illustrated by comparing French defence firm Thales with BAE Systems. State-owned defence firm Thales[50], for example, was formed in 2000 after the acquisition of UK based Racal Electronics by French Thomson-CSF which had pursued an explicit growth strategy in the European defence industry over the 1980s and 1990s, acquiring, for example, the defence electronics activities of Philips. While Thomson CSF- reported 27 % of foreign sales within Europe in 1993, for Thales the foreign sales within Europe accounted for

[48] For an overview of RWE's history, see http://www.fundinguniverse.com/company-histories/rwe-ag-history/; Hans Pohl: Vom Stadtwerk zum Elektrizitätsgroßunternehmen. Gründung, Aufbau und Ausbau der „Rheinisch-Westfälischen Elektrizitätswerke AG“ (RWE) 1898–1918. (Stuttgart, 1998); Helmut Maier (Ed.): *Elektrizitätswirtschaft zwischen Umwelt, Technik und Politik: Aspekte aus 100 Jahren RWE-Geschichte 1898–1998*, (Freiberg 1999). Lutz Mez, Rainer Osnowski: RWE - Ein Riese mit Ausstrahlung. (Köln, 1996); RWE Annual Report 2010, p. 55.

[49] For a consideration of the interaction of Global, European and National level factors in the defence industry see Neil Fligstein, "Sense Making and the Emergence of a New Form of Market Governance – the Case of the European Defense Industry", *American Behavioral Scientist*, 49, no.7 (2006): 949-960.

[50] Brief overviews of the company history are provided at https://www.thalesgroup.com/en/worldwide/about-us/thales-over-100-years-history as well as http://www.referenceforbusiness.com/history2/40/Thales-S-A.html

57% in 2007. Thales' foreign sales outside Europe in contrast dropped from 26% to 17%, reflecting a strategy of geographic concentration. By contrast, the establishment of BAE Systems was a deliberate decision to forgo European expansion. In 1995 British Aerospace and Germany's DASA had intentions to form a strong European champion to counter US defence companies.[51] Instead, the British company decided to merge with Marconi Electronic Systems, also from the UK in 1999. While the initial intention was to grow both in Europe and the US, commercial opportunities in the US were considered more attractive. By 2004 further acquisitions or joint ventures in Europe were ruled out to boost investments in the US.[52] Sales outside Europe accordingly increased from 38 % in 1993 to 66 % in 2007, while at the same time intra-European sales decreased from 28 % to 12 %.

Germany followed a more balanced trajectory leading to increased engagement both within (26 % to 31%) and outside of Europe (27% to 37%), a pattern reflected in the strategies of prominent firms such as Siemens and BMW whose activities inside and outside of Europe grew in very similar ways. For Siemens, which increased its sales outside of Europe from 17% to 39% and within Europe from 11% to 32% its internationalisation was significantly driven by concerns for its competitiveness at both the European and Global level. The firm's senior management was, for example, conscious of falling behind General Electric in terms of profitability and started to leave consumer markets in order to invest in businesses that serve industrial customers in the 2000s[53]. It exited computer hardware, lightning, household appliances, mobile and fixed-line phone business[54] – a business area that traced its origins back to 1848. Expansion extended not only to Europe but also focused on the US and Asia as potential growth markets. An example is the 1997 acquisition of Westinghouse in the US, turning Siemens into the world's second largest manufacturer of power generation technology.[55]

51 Jones, Adam (20 January 1999). "Europe cries foul as New BAe emerges". The Times. UK.
52 Spiegel, Peter (7 December 2004). "Oil or missiles, the constant is power". Financial Times.
53 Loke, M. (1997) Expansion in den Wachstumsregionen USA und Asien geplant Siemens will sein Industriegeschäft weltweit an die Spitze führen. Berliner Zeitung 3.9.1997.
54 Hegmann, G and Tauber A. (2014). Siemens verabschiedet sich aus unserem Alltag. Die Welt 22.09.2014.
55 Siemens übernimmt Kraftwerkssparte. Die Welt 15.11.1997. Archieved in https://www.welt.de/print-welt/article644273/Siemens-uebernimmt-Kraftwerkssparte.html.

Table 1
Strategy Evolution, large firms in Germany, France, UK, 1993-2007

	Germany		**France**		**United Kingdom**	
	1993	*2007*	*1993*	*2007*	*1993*	*2007*
Product Diversification (Entropy)	0.99	0.72	0.88	0.59	0.95	0.63
Foreign Sales within Europe	26.16%	30.71%	18.86%	30.15%	21.54%	12.22%
Foreign Sales outside Europe	27.37%	36.76%	34.75%	40.95%	38.87%	55.08%

While individual French and German firms thus clearly did have international ambitions, these typically encompassed expansion both within and outside of Europe. UK firms differ in that they not only focused more intensively on global expansion but also reduced their relative presence in Europe. Such patterns clearly resonate with observations about the impact of historic linkages between the UK, the Commonwealth, and other countries sharing linguistic and cultural ties, with this ‘Anglosphere’, facilitating the development of social, political and economic networks and relationships.[56]

However, in part these national differences may reflect different patterns of ownership, both in terms of ownership concentration and the types of owners. On the systemic level ownership is much more concentrated in France and Germany than in the UK, suggesting that UK firms are typically more immediately and directly affected by the pressures of the financial markets, the exceptions being firms such as state-owned defense firm QINETIC and nuclear processor BNFL whose activities are primarily in the UK.

[56] See Legrand, Timothy. "The merry mandarins of Windsor: policy transfer and transgovernmental networks in the Anglosphere." *Policy studies* 33, no. 6 (2012): 523-540. Willetts, David. "England and Britain, Europe and the anglosphere." *The Political Quarterly* 78, no. s1 (2007): 54-61.

In France and Germany owner preferences often played a significant role. The impact of state ownership is particularly noteworthy in France. On average, French state-owned firms, such as defense firm Thales and automotive firm Renault, grew their sales to other European countries from 13% to 41% (substantially more than the average for all large French firms), whilst simultaneously reducing their exposure outside of Europe from 33% to 26% (contrary to the trend for all large French firms). For Germany too there is some, albeit weaker, evidence that state ownership was associated with a preference for Europeanization rather than globalization. While German state-owned firms increased their sales within Europe, they did so less extensively (from 23% to 33%, slightly more than all German large firms), while only incrementally increasing their involvement outside of Europe (from 18% to 19%, much less than for all German large firms).

Family ownership plays a significant role in both France (23 to 27 family-owned firms in the observation period) and Germany (22 to 25 family-owned firms). The UK in contrast had only very few family-owned firms, (3 to 5 in the observation period). While French family firms slightly increased their already notable presence outside of Europe (from 37% to 42%), a phenomenon substantially underpinned by the global activities of French family firms such as LVMH, they increased their international sales inside of Europe more substantially (from 19% to 27%): however, these intra-European sales were still below the French large-firm average. While German family owned firms increased their presence outside of Europe to a more notable extent (from 27% to 36%), they did so from a much lower base than their French counterparts. In contrast to the wider patterns for Germany, this greater global orientation was accompanied by a slight reduction in the importance of their intra-European sales (from 32% to 30%).

Conclusion

The Single European Market was set up in an effort to enhance European integration and competitiveness in the context of the global Economy. We have considered the possible impact of these profound institutional changes on one of the central characteristics of economic organization, corporate strategy. In particular, we have focused on the diversification and internationalization strategies of firms across Europe from the initiation of the European Single Market in the early 1990s to 2010, the immediate aftermath of the Global Financial Crisis. Our data offers a nuanced picture that points to a complex interplay between the intensification of competition generated by the creation of the Single Market and the impact of historically established national institutional and cultural specificities. The patterns thus reveal a range of changes across European business, with completion of the Single Market generally being followed by vigorous refocusing in terms of diversification, but more selective patterns of internationalization, whether within or outside Europe. UK business especially has been distinctively global rather than European in its pattern of internationalization.

Reversing earlier trends, the reductions in diversification are in line with expectations given the competitive stimulus to greater efficiency, and are more radical than trends in the United States. This suggests a 'European' effect distinct from wider processes of globalization. Notably, this trajectory was not only followed by large firms in the three largest European economies but was common to a range of firms across Europe. It was shared by the economies of Northern and Southern Europe, as well as smaller firms in the large economies. Our comparison with the US, where the focusing of business was more moderate, speaks to the extent to which European institutional and competitive changes were conducive to putatively more efficient focused diversification strategies. On this count, we can speak of success in creating a more competitive European business space. European businesses have developed a common approach to diversification, one distinctive from their American peers.

Less expected is the unevenness of changes in internationalization following completion of the Single Market. Notable increases in internationalization outside of Europe are concentrated on a small subset of European countries, most notably the UK. British firms have globalized, but they have also been consistent and distinctive in their low commitment to European sales in particular. While the creation of the Single Market by and large did little to increase the Europeanization of firms from other countries, they were consistently more regionally-orientated than British ones. However, there were national differences even within the other European countries. Large French firms significantly increased their Europeanization, particularly under conditions of state-ownership. Spanish firms have taken the opportunity to catch up with firms from other similar economies, and German firms experienced a surge in internationalization around the turn of the century. German firms have responded to the European Single Market by increasing both intra-European and wider global sales, in short, balanced internationalization. None-the-less, although some individual firms did embark on ambitious internationalization strategies, there is also little change in the wider global reach of European firms overall.

The overall pattern of findings thus offers a nuanced picture of the relationship between economic liberalization and institutional harmonization and the strategic trajectories of firms and national patterns of economic development more generally. That trajectories of product diversification have aligned themselves substantially across Europe speaks to the profound impact of the intensification of competition brought about by the changes in the institutional environment. The variety internationalization paths taken by firms from different European economies, however, demonstrates the important role of national specificities in guiding the impact of forces of liberalization and institutional harmonization, reinforcing earlier work that highlighted the importance of historically shaped national institutional and cultural configurations.[57] Ownership patterns matter here. The French state, involved in the creation of the wider institutional framework of the European Common Market, also oversaw a clear strategy of Europeanization of firms under its ownership, setting the tone for the strengthening of European involvement by French firms. In the UK the more strongly marketized financial system does not allow for such a more direct involvement of the state.

Here, the evidence suggests a role for more deeply embedded societal and cultural structures.[58] That UK firms pursued a globalized strategy whilst at the same time limiting

[57] Mira, Wilkins, Kathleen Thelen, Richard Whitley, Rory M.Miller, Cathie Jo Martin, Volker Berghan, Martin Jes Iversen, Gary Herrigel, Jonathan Zeitlin "Varieties of Capitalism" Roundtable, *Business History Review* 84 (Winter 2010): 637-674.

[58] Geoffrey Jones, *Multinationals and Global Capitalism* (New York, 2005); Alain Verbeke and Liena Lano, The New Internalization Theory and Multinational Enterprises from Emerging Economies: A Business History Perspective, *Business History Review* 89 (Autumn 2015): 415-445. Teresa da Silva

their involvement in Europe is suggestive of the continued importance of ties to the commonwealth and the wider ‘Anglosphere’. The extent to which the distinct internationalization path of UK firms is a reflection of different patterns of opportunity, or a rejection of European involvement by corporate strategists, is a question that – post-Brexit – urgently deserves further research.

Lopes, Competing with Multinationals: Strategies of the Portugese Alcohol Industry, Business History Review 79, no. 3 (Autumn, 2005). Binda, "Strategy and structure in large Italian and Spanish firms, 1950–2002."