Was British business destined to leave the EU?

Brexit and Remainers. As Michael Bloomberg says, “it is really hard to understand why a country that was doing so well wanted to ruin it.”

Anti-immigration sentiments, a feeling of being left behind by many voters, an uninspiring campaign by the Remain side, and decades of ‘blame it on Europe’ by both Tory politicians (including David Cameron) and tabloids are obvious reasons. No plausible economic explanation, however, has been put forward so far.

This is where our research on European firms offers new insights. While corporate UK was strongly opposed to leaving the European Union, their strategies tell a slightly different story. To untangle fundamental differences in national patterns of organisation, we followed previous scholars who looked at changes in diversification and internationalisation – the two fundamental dimensions of corporate strategy. We collected 1993-2010 data for 5,415 firms in France, Germany and the United Kingdom, as well as the mid-sized northern and southern European economies of Sweden, Finland, Italy, and Spain. Our data covers all publicly listed non-financial firms.

In a nutshell, UK firms follow the general European trend in diversification, namely reducing it. Their approach to internationalisation is, however, very different. In contrast to their European counterparts, they look for markets primarily outside of Europe. Clearly, they are not as impressed by the opportunities created within Europe by the twin policies of market liberalization and harmonisation, which are intended to increase the global competitiveness of European firms.

Take the two defence contractors Thales and BAE Systems. The former is French, the latter British. State-owned Thales had an explicit European growth strategy dating back to the 1980’s. Thales was born when its predecessor Thomson-CSF took over the defence electronics activities of Philips and acquired UK’s Racal Electronics. Between 1993 and 2007, foreign sales in Europe jumped from 27 per cent to 57 per cent, while foreign sales outside Europe dropped from 39 per cent to 17 per cent.

BAE Systems seemed, at first, to go down a similar path. In 1995, British Aerospace and Germany’s DASA had plans to form a strong European champion to counter the dominance of U.S. defence contractors. Instead, the British company decided to merge with UK’s Marconi Electronic Systems in 1999. Growth in Europe was not rejected per se, but opportunities in the United States were simply too attractive. By 2004, further European acquisitions or joint ventures were ruled out altogether. Between 1993 and 2007, sales outside Europe hence increased from 38 to 66 per cent while those in Europe declined from 28 to 12 per cent.

Let’s take a look at the overall numbers. Between the early 1990s and the immediate aftermath of the global financial crisis, British intra-European sales fluctuated around 7 to 8 per cent of total sales. German firms doubled their intra-European sales from about 10 to 20 per cent. For firms from other European countries, the growth of intra-European sales was not quite so dramatic, but even Spanish and Italian firms were above 15 per cent, proportionally selling twice as much in Europe than British firms.

Rather than bringing British firms closer to continental Europe, European integration appears to have pushed them to look elsewhere. Although by 2010 the sales of British firms outside of Europe were similar to those of their German and French counterparts – at around 24 per cent – this involved some catching up from a comparatively low base of 13 per cent. For the 100 largest firms, the pattern was even more pronounced. Sales in Europe declined from 21 to 12 per cent of total sales, while they grew from 29 to 55 per cent outside Europe.
The distinctiveness of British internationalisation is, in a sense, Brexit foretold. History, as well as the images we associate with it, should not be underestimated here. While a British business tycoon will think of Ronald Kipling’s India when a deal in the subcontinent is proposed, pictures of Stalin’s communist regime will cloud their thinking over a similar proposal stemming from Hungary.

A yet unanswered question is whether the distinct path that British business has taken since the early 1990s will help it to master the challenges of Brexit. A natural experiment in the making.

This article gives the views of the author, and not the position of LSE Brexit, nor of the London School of Economics. It is based on the authors’ paper Diversification and Internationalization in the European Single Market: The British Exception, and first appeared on LSE Business Review.

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