

## 1. Introduction

Conventional explanations of firm diversification and multinationality display striking similarities; for example, both point to the existence of intangible specific assets as often the driving force, and constraints on growth in the firm's primary/home market are often posited as an important push factor. Yet, in spite of this commonality, the empirical literatures on the two subjects have remained largely independent. The present paper attempts to redress this by examining the incidence of the two phenomena simultaneously for a sample of the leading firms in the European Union, in which 100 three-digit industries and eleven member states respectively define the product and geographic spaces<sup>1</sup>.

Part of the novelty derives from the data employed: as far as we know, this is the first ever attempt to explore the interface between these two elements of corporate structure at this level of disaggregation for the EU observed as a single entity. We develop a typology of different classes of firms which distinguishes multinationality in primary and secondary industries (or, equivalently, which distinguishes diversification at home and abroad). This enables us to explore a number of hypotheses which tend to be overlooked when multinationality and diversification are examined separately. For example, are diversification and multinationality substitutes or complementary strategies? Does the type of specific asset matter? Is there a "typical" pattern for corporate structure as firms grow?

Sections 2 and 3 provide the background by briefly summarising the existing literature and describing the main features of our database. Section 4 introduces the notion of an MD matrix which allows us to formalise the inter-relationship between multinationality and diversification and suggests a typology of classes of firm. Section 5 applies this typology to the database and distinguishes differences between the classes in terms of firm and industry characteristics. Section 6 uses multinomial logit analysis to examine whether

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<sup>1</sup> This paper is an off-shoot of a recently completed project on the industrial organisation of the EU (Davies, Lyons et al, 1996).