UNIVERSITY OF OXFORD

Discussion Papers in Economic and Social History

Number 53, February 2004

EVOLUTION OF CORPORATE GOVERNANCE IN GLOBAL INDUSTRIES: THE CASE OF MULTINATIONALS IN ALCOHOLIC BEVERAGES

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EVOLUTION OF CORPORATE GOVERNANCE IN GLOBAL INDUSTRIES: THE CASE OF MULTINATIONALS IN ALCOHOLIC BEVERAGES

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Abstract

This paper considers aspects of the evolution of ownership and control in global industries from 1960. The existing literature usually uses the largest firms in industrialized countries, to provide generalizations about national systems of corporate governance. In practice, this characterization is far from being comprehensive. For example, global industries which are not dominant in countries' economies – such as alcoholic beverages – are overlooked.

Including such overlooked cases, this study suggests that there is a broader range of combinations of ownership and control of firms than is usually considered. Regardless of national systems of corporate governance, family ownership may remain very important in some industries. Industry-specific factors, such as brands and marketing knowledge in alcoholic beverages, help explain why the predominant ownership and control structures of global firms are distinct from those that characterize their countries of origin.

EVOLUTION OF CORPORATE GOVERNANCE IN GLOBAL INDUSTRIES: THE CASE OF MULTINATIONALS IN ALCOHOLIC BEVERAGES

1. Introduction[1]

When we look at global industries, a number of simple questions come to mind. Which are the leading multinationals? How did they achieve leadership positions? Does the country of origin matter? Has the level of concentration of ownership influenced their process of growth? Who manages these firms? How has ownership and control of firms evolved over time? It is these questions that are analysed in this paper, in the context of the evolution of multinationals in the global alcoholic beverages industry.

Existing studies tend to look at the largest firms in industrialised countries, and use the nation state as the central reference for making comparative analysis on the evolution of their systems of corporate governance.[2] National systems of corporate governance, in a broad way, include the particular arrangements of hierarchy and market relations, which have become institutionalized and relatively successful in particular national contexts. Systems that developed within a particular country reflect not only the formal relations both within firms and between firms and the market, but also the distinctive culture, law and polity of the country.[3]

Alfred Chandler in his book *Scale and Scope* looked at the business history of the US, the UK and Germany, setting out an interpretation of the dynamics of industrial capitalism. Based on the evolution of the leading firms in each country, predominantly technology-based, Chandler distinguished some key characteristics of capitalism, such as the extent to which leading firms established large managerial bureaucracies to coor-

[1] I am very grateful to Mark Casson, Paul Duguid, Geoffrey Jones, Colin Mayer and Avner Offer for their comments and suggestions. All errors are mine alone.

[2] Alfred D. Chandler Jr., *The Visible Hand* (Cambridge, Mass: Harvard University Press, 1977); *idem*, *Scale and Scope* (Cambridge, Mass: Harvard University Press, 1990); William Lazonick, *Business Organization and the Myth of the Market Economy* (Cambridge, Mass: Harvard University Press, 1991); Geoffrey Jones, *British Multinational Banking 1830–1990* (Oxford: Clarendon Press, 1993); John Scott and Catherine Griff, *Directors of Industry: The British Corporate Network 1904–76* (Cambridge: Polity Press, 1984).

[3] Richard Whitley (ed.), *European Business Systems: Firms and Markets in their National Contexts* (London: SAGE Publications, 1992), 6; Richard Whitley, *Business Systems in East Asia: Firms Markets and Societies* (London: SAGE Publications 1992); *idem*, 'Eastern Asian Enterprise Structures and the Comparative Analysis of Forms of Business Organization', *Organization Studies*, Vol. 11, No. 1 (1990), 47–54; Mark S. Granovetter, 'Economic Action and Social Structure: The Problem of Embeddedness', *American Journal of Sociology*, Vol. 91, No. 3 (1985), 481–510; R. Levine, 'Financial Development and Economic Growth: views and agenda' *Journal of Economic Literature*, No. 35 (1997), 688–726.

dinate a wide variety of activities and transactions, and the separation of owners from managers, Chandler created two categories for comparing corporate control, which refers to the mechanisms of decision-taking by firms between countries. Corporate control can be 'personal' or 'managerial'.[4]

It is 'personal' when the firm is owner-controlled. Chandler emphasises the importance of firms managed by their founders or by members of the founding families. In general such firms lack extensive management hierarchies, but there are exceptions, as some 'managerial' firms, such as GE under Jack Welch, undoubtedly reflect the personality of powerful managers.[5] Conversely, in 'managerial' enterprises decisions about current production and distribution or involving investments in facilities and personnel for future production and distribution are made by a hierarchy of lower, middle and top salaried managers. The US is characterized by competitive managerial capitalism, the UK by personal managerial capitalism, and Germany by cooperative managerial capitalism, which combines aspects of US managerial capitalism with concentrated ownership and inter-firm cooperation.

Other authors emphasise the importance of different factors for making comparative analysis of national systems of corporate governance. For example, Jenkinson and Mayer focus on types of ownership. They classify national business systems as 'outsider' and 'insider'.[6] 'Outsider' systems disperse ownership among a large number of individual and institutional investors. In 'insider' systems, by contrast, shares are concentrated in the hands of a small number of other firms, financial institutions and families, even when they are publicly quoted. Cross-shareholding between firms is also commonplace in insider ownership.

Jenkinson and Mayer also give considerable importance to external factors such as the political and regulatory environment of countries (eg. shareholder protection, and development of capital markets). According to these authors countries such as the UK, US, and Canada have 'outsider' business systems, and Continental European countries and Japan tend to have 'insider' business systems.

Both the Chandlerian, and Jenkinson and Mayer perspectives suggest a strong correlation between the country of origin and the ownership structures or management control systems of firms. For example, if firms are based in the US, they are expected to have 'managerial' corporate control according to Chandler; and to be based on 'outsider' systems of corporate governance according to Jenkinson and Mayer. Conversely, if firms are based in countries like France, then corporate control is expected to be 'personal', and ownership to be 'insider' based.

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[4] Alfred D. Chandler Jr., 'The Emergence of Managerial Capitalism', *Business History Review*, Vol. 58, (1984), 473–503; *idem*, *Scale and Scope*.

[5] More recently the literature has pointed out that communications technology has tended to 'flatten' firms, reducing the amount of hierarchy. The examples commonly cited (Federal Express and Wal-Mart) are clearly not particularly personal in their control.

[6] Tim Jenkinson and Colin Mayer, 'The Assessment: Corporate Governance and Corporate Control', *Oxford Review of Economic Policy*, Vol. 8, No. 3 (1992), 1–10.

Yet, in global industries the predominant governance structures of the leading multinationals often do not reflect the dominant systems of their countries of origin.[7] This study brings the ownership and corporate control perspectives together and aims to show that there is a wide range of combinations of ownership and control that firms may have. Additionally it aims to show that apart from technological innovation, other determinants such as brands and marketing knowledge have an important impact on the control and ownership structures of multinational firms. The period from the early 1960s, the period of this analysis, is one where the ownership and control of firms changed substantially, due to the great increase in multinational activity, which accompanied profound concentration and rapid globalisation of industries.[8]

The following section provides empirical evidence on the evolution of ownership and control by the world's largest multinationals in alcoholic beverages. Section 3 then combines the ownership and corporate control perspectives to show there are various possible combinations of ownership and control that firms may adopt, which are connected with the nature of the industry in which they operate. Section 4 analyses the importance of marketing knowledge in determining the predominant ownership and control structures in the global drinks industry. Finally Section 5 provides a summary of the study and emphasizes the importance of family ownership in global industries such as alcoholic beverages, where brands and marketing knowledge are more important than technological innovation in the growth and survival of firms.

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[7] See Richard Whitley, 'Dominant forms of economic organization in market economies', *Organization Studies*, Vol. 15, No. 2 (1994), 153–82; John L. Campbell and Leon N. Lindberg, 'The Evolution of Governance Regimes', in John L. Campbell, J. Rogers Hollingsworth and Leon N. Lindberg (eds.), *Governance of the American Economy* (Cambridge: Cambridge University Press, 1991); J. Rogers Hollingsworth and Robert Boyer, 'The Co-ordination of Economic Actors as Social Systems of Production', in J. R. Hollingsworth and R. Boyer (eds.), *Contemporary Capitalism: The Embeddedness of Institutions* (Cambridge: Cambridge University Press, 1997), 1–54.

[8] John H. Dunning, *Multinational Enterprises and the Global Economy* (Wokingham, Berkshire: Addison Wesley, 1993); Geoffrey Jones, *The Evolution of International Business* (London, Routledge, 1996).

2. Corporate governance in industries

The separation of ownership and control of firms was originally discussed earlier in the twentieth century with the work of Berle and Means (1932).[9] However, comparative analysis of national systems of corporate governance did not gain significance until the 1970s and 1980s when firms from industrialized countries showed poor performance as a consequence of the massive expansion and diversification of the 1960s. While these studies on national systems of corporate governance are very useful for analysing the economic growth of industrialized countries, they alone are not sufficient to explain the evolution of global industries, which despite having widespread international activities are not dominant in the economies of individual countries.

When studying technology-driven industries such as oil, automobiles, computers and chemicals, which are dominant in economies of countries such as the US, a 'national systems' perspective (such as Chandler's managerial vs. personal control systems) is sufficient to explain in broad terms the evolution of ownership and control.

The national systems perspectives assume cultural and economic determinism and consider that dominant industries establish the 'rules of the game' for all other players in the same country. However, these national systems do not necessarily preclude firms in particular global industries from developing distinctive industry-specific capabilities and competitive norms.[10] This is particularly true in pluralist societies, with a great variety of institutions and a weak cohesion within national boundaries.

Indeed, in industries such as alcoholic beverages, cosmetics or consulting, the national systems perspectives are not sufficient to explain the evolution of their ownership and control.

2.1 The country of origin of the leading multinationals in alcoholic beverages

The multinationals ranking as the leading alcoholic beverages firms in the world varied substantially between 1960 and 2000. Table 1 uses Jenkinson and

[9] Adolf A. Berle and Gardiner C. Means, *The Modern Corporation and Private Property* (New York: Hardcourt Brace & World, 1932).

[10] Alfred D. Chandler, Franco Amatori and Takashi Hikino (eds.), *Big Business and the Wealth of Nations* (Cambridge: Cambridge University Press, 1997); Keijo Räsänen and Richard Whipp, 'National Business Recipes: A Sector Perspective', and Richard Whitley, 'Business Systems, Industrial Sectors and Strategic Choices', both in Whitley (ed.), *European Business Systems*.

Table 1 – Average annual sales by decade for the world's leading firms in alcoholic beverages, 1960–2000

Amounts stated in millions of constant US$ (1995=100)

Countries/Firms	Year of foundation/ last merger	Year of merger/ acquisition	1961–1970	1971–1980	1981–1990	1991–2000
US and Canada						
Anheuser Busch	1852		2,208	3,672	9,729	12,499
Brown Forman	1870		654	837	1,526	1,862
Heublein (*a*)	1875	1987	1,252	2,939	3,004	–
Liggett and Myers (*b*)	1873	1980	2,768	2,028	–	–
Seagram	1924	2001	4,817	4,596	4,300	9,672
Hiram Walker (*c*)	1926	1986	2,378	2,171	3,853	–
National Distillers (*d*)	1924	1986	3,981	3,317	–	–
Schenley (*e*)	1920	1971/1987	2,209	2,538	–	–
Constellation Brands (*f*)	1945		*n/a*	*n/a*	*n/a*	1,002
E. & J. Gallo	1933		*n/a*	*n/a*	*n/a*	1,329
		Average	2,533	2,762	4,482	5,273
		Standard deviation	1,351	1,145	3,118	5,408
UK						
Allied Domecq	1799/1961		2,563	4,503	7,096	8,359
Arthur Bells (*g*)	1825	1985	218	404	599	–
Bass	1777	2000	2,007	3,474	5,929	6,446
Diageo (*h*)	1997		–	–	–	21,111
Grand Metropolitan (*i*)	1962	1997	522	6,014	12,073	14,137
Guinness (*j*)	1759	1997	1,391	1,923	4,163	7,666
IDV (*k*)	1962	1972	690	1,188	–	–
Scottish & Newcastle (*l*)	1749/1960		1,233	1,335	1,695	4,277
Truman (*m*)	*n/a*	1971	248	303	–	–
Distillers Corporation (*n*)	1877	1986	3,973	3,210	2,653	–
Watney Mann (*o*)	1958	1972	1,496	1,694	–	–
Whitbread (*p*)	1742	2000	1,320	1,893	3,062	6,471
		Average	1,424	2,358	4,659	9,781
		Standard deviation	1,113	1,767	3,676	5,862
Australia and South Africa						
Foster Brewing (*q*)	1888		*n/a*	*n/a*	*n/a*	2,526
South African Breweries (*r*)	1895		*n/a*	*n/a*	*n/a*	6,173
		Average	–	–	–	4,350
		Standard deviation	–	–	–	2,579
		Average US, Canada, UK, Australia and South Africa	**1,891**	**2,528**	**4,591**	**7,395**
		Standard deviation US, Canada, UK, Australia and South Africa	**1,309**	**1,512**	**3,337**	**5,621**

Table 1 (continued)

Countries/Firms	Year of foundation/ last merger	Year of merger/ acquisition	1961–1970	1971–1980	1981–1990	1991–2000
Japan						
Asahi (*s*)	1889		*n/a*	*n/a*	2,207	9,343
Kirin	1907		2,433	3,848	8,667	10,311
Suntory (*t*)	1899		876	3,111	5,545	7,276
Average			1,655	3,479	5,473	8,977
Standard deviation			1,101	521	3,231	1,550
Continental Europe						
Carlsberg	1847		–	1,623	2,032	3,414
Interbrew (*u*)	1988		–	–	*n/a*	3,350
Heineken	1864		310	1,654	3,360	6,666
Moet Chandon (*v*)	1743	1971	90	–	–	–
Moet Hennessy (*x*)	1971	1987	–	630	1,479	–
Moet Hennessy Louis Vuitton (*y*)	1987		–	–	3,513	6,928
Pernod Ricard (*x*)	1805/1975		–	948	1,999	5,586
Remy Cointreau (*z*)	1724/1991		–	–	–	1,195
Average			200	1,214	2,477	4,523
Standard deviation			156	508	905	2,244
Average Japan and Continental Europe			**927**	**1,969**	**3,600**	**6,008**
Standard Deviation Japan and Continental Europe			**1,057**	**1,256**	**2,420**	**2,951**

In order to create this table the annual reports that were available of all the firms cited in the table were used. For those where annual reports were not available, other sources such as the Hoovers.com database were utilized.

Key to table

n/a – not available

(*a*) Heublein – data available only up to 1981
(*b*) Liggett and Myers – data from 1961 until 1964 and 1980 was not available
(*c*) Hiram Walker – data only goes up to 1983
(*d*) National Distillers – data from 1974 to 1979 not available
(*e*) Schenley – data only up to 1971
(*f*) Constellation Brands – data available from 1997
(*g*) Arthur Bells – data available only up to 1984
(*h*) Diageo – data only from 1997;
(*i*) Grand Metropolitan – data only up to 1995
(*j*) Guinness – data only up to 1996
(*k*) IDV – data only from 1963 to 1974
(*l*) Scottish and Newcastle – data only from 1967
(*m*) Truman – data only up to 1985
(*n*) Distillers Corporation – data only up to 1985
(*o*) Watney Mann – data only up to 1971
(*p*) Whitbread – data for 1964 not available
(*q*) Foster Brewing – data available only from 1998
(*r*) South African Breweries – data available only from 1997
(*s*) Suntory – data available only from 1963
(*t*) Interbrew – data available only from 1995
(*u*) Moët et Chandon – data available only up to 1969
(*v*) Moët Hennessy – only from 1988
(*x*) Remy Cointreau – only from 1994

Mayer's classification of 'insider' and 'outsider' systems of corporate governance to aggregate the world's largest alcoholic beverages with published ac-counts from 1960 to 2000 into two groups.[11] The US, UK, Canada, Australia and South Africa are grouped as 'outsider' systems. Continental Europe and Japan are grouped as 'insider' systems of corporate governance.

For each firm, Table 1 provides the average sales in each decade: 1961–70, 1971–80, 1981–90, and 1991–2000, stated in constant US$ (1995=100).[12] Additionally Table 1 also provides information on the year of foundation or last merger of the firms, and year of merger or acquisition by another firm.

Table 1 shows that in the 1960s the number and size of firms (measured by sales volume) originally from the 'outsider' systems (US, US and Canada) was much higher than that of firms from 'insider' systems (Continental Europe and Japan). In contrast, by 2000 the number of firms from 'outsider' systems was similar to that of firms from 'insider' systems. Firms like National Distillers (which had been the world leader in alcoholic beverages at the beginning of the twentieth century),[13] and Schenley (another leading US spirits firm), had disappeared having been acquired, respectively, by American Brands in 1986 (renamed in 1997 as Fortune Brands) and by Guinness in 1987.

Other firms listed in the table such as Seagram disappeared after 2000. Seagram, a Canadian firm and once also one of the world's leaders in spirits, was acquired by French media and water group Vivendi in 2001. This French group kept the media part of the Seagram business and sold the alcoholic beverages business to Diageo and Pernod Ricard, which split Seagram's most successful brands between themselves and sold those they were not interested in keeping individually. Another company which changed substantially since 2000 is South African Breweries, which acquired Miller Brewing in 2002, becoming the second largest brewer in the world.

2.2 Early development of leading firms from US/UK and Canada

There are two arguments which explain the earlier development of leading alcoholic beverages firms in the US, the UK and Canada. One is specific to the industry and concerns the type of alcoholic beverages produced and consumed in each country. The other is of a more general scope and concurs with the national systems perspectives, in particular with the Chandlerian explanations on the emergence and development of large industrial firms.

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11 Jenkinson and Mayer, 'The Assessment'.

12 To convert the data into constant US dollars several indicators were used. First, original currencies were converted into current US$, using the average annual exchange rates for Australia, Belgium, Canada, Denmark, the Euro, France, Japan, the Netherlands, South Africa and the UK. Secondly, the export unit values for the industrial countries' index was used to convert the data from US$ current prices into US$ constant prices: unit value prices in terms of US dollars of 1995.

13 Alfred D. Chandler Jr., *Strategy and Structure* (Cambridge, Mass: The MIT Press, 1962).

The Anglo-Saxon countries were the first to develop large firms despite the temperance movements and high tax restrictions that have affected production and consumption of alcoholic beverages since the late nineteenth century. These firms mainly produced beer or spirits, two types of beverages where it is possible to industrialize production and yet maintain the characteristics of the beverage. Consequently, in such firms it was relatively easy to obtain economies of scale and scope in production and also to create branded products.[14]

Following the lead of beer and spirits, by the end of the twentieth century several countries had began to produce standard wines, where it was also possible to obtain consistent quality and therefore to create brands. The US wine firm Gallo grew out of a strategy based on standard wines. This family business was founded in 1933, and by the end of the twentieth century it was one of the world's largest producers of wines.

In Continental Europe the trend was, by contrast, for wine producers to maintain the emphasis on the region of origin. In countries such as France, Italy or Spain, where wine is the most consumed alcoholic beverage, large wine firms developed only recently if they developed at all. This non-development or late development of large firms is due to the characteristics of the product, wine, for which it is difficult to obtain homogeneous quality in quantity, and which has been traditionally branded by region.

The firms from these countries which developed as leading multinationals had their original base in the production of processed wines or spirits based on wine, such as cognac or champagne. In France the creation of Moët-Hennessy in 1971 is a good illustration of this. In Spain, a processed wine (sherry) and spirits (brandy and tequila) allowed Pedro Domecq to develop into a relatively large firm, with brands such as Don Pedro, Presidente and Fundador.[15] By processing wine, firms were able to mix wines from several producers and so overcome some of the limits to *teroir*.

The emphasis on the region nonetheless makes the development and expansion of branded wines more difficult as there are limitations – not only geographic but also related to the climate and the crop – to production. Firms have more difficulty obtaining economies of scale and scope at various levels of activity. Nonetheless, Moët-Hennessy has been very good at overcoming these limitations acquiring vineyards in different countries such as Argentina, Brazil, Germany, Austria, US, Spain, Australia and New Zealand, from 1960 onwards. The firm does not use the word 'champagne' to market these products as that is legally protected and can only be used for wines produced in the Champagne region. Instead, its subsidiaries produce and market their sparkling wines

[14] This capacity of beer and spirits to be easily branded, and allow the firm to obtain economies of scale and scope has not always existed. For an historical analysis of the evolution of pasteurisation in beer and how it revolutionised trade, see for example, Terry Gourvish and Richard G. Wilson, *The British Brewing Industry, 1830–1980* (Cambridge: Cambridge University Press, 1994).

[15] This firm was acquired by Allied in 1994.

produced in these regions using a very similar brand name – 'Domaine Chandon' – to that of the famous Champagne brand 'Moët & Chandon'.[16]

Other explanations for the early development of these firms fit with Chandler's arguments for the early development of firms originally from the UK, the US and Canada. These countries were early industrialisers, were the first to have a widespread usage of modern management practices (such as the disclosure of accounts), and were the first to create markets for corporate control.

The large size of their markets, having developed the first consumer societies in the world, compensated for the relatively low levels of per-capita consumption of alcohol in relation to many Continental European countries.[17]

The management practices and disclosure of accounts that firms in the US and UK were required to follow, as well as the ways by which the information was passed between market participants, greatly improved the allocation of economic resources and the development of large alcoholic beverages firms in these countries.[18]

Government regulation and the procedures for mergers and acquisitions followed by these countries also illustrate these differences. Anti-trust and anti-monopoly measures developed earlier in the US. It was the first country to develop anti-trust regulations with the Sherman Act in 1890. In the United Kingdom monopoly policy took longer to catch up and did not converge on the American pattern until after World War II, with the creation of the Monopolies and Restrictive Practices Commission in 1948, which was reinforced by the restrictive Trade Practices Act in 1956. In Continental European countries and Japan, these changes only developed in the late 1950s and early 1960s.

[16] Moët & Chandon Archive (Epernay, France): 'Moët-Hennessy's Strategy' (14 November 1987); Moët et Chandon, 'Moët et Chandon Australia' (March, 1989); 'The case of Domaine Chandon: California wine experience' (May 1984).

[17] Chandler, *Strategy and Structure*; Leslie Hannah, *The Rise of the Corporate Economy* (London: Methuen, 1976), 102, 189; Christopher Schmitz, 'The World's Largest Industrial Companies', *Business History*, Vol. 37, No. 4 (1995), 85–96; *Fortune Magazine*: *The Largest Industrials* (1961, 1971, 1981, 1991, 2001); Wendy Hurst, Ed Gregory and Thomas Gussman, *Alcoholic Beverage Taxation and Control Policies* (Ottawa: Brewers Association of Canada, 1997).

[18] Eugene F. Fama, 'Efficient Capital Markets II', *Journal of Finance*, Vol. 46, No. 5 (1991), 1575–617; Matthias Kipping and Ove Bjarnar, *The Americanisation of European Business: The Marshall Plan and the Transfer of US Management Models* (London: Routledge, 1998).

3. Combining ownership and corporate control

Given the higher number and larger size (measured by average sales by decade) of alcoholic beverages firms from the US, UK and Canada in relation to Continental European and Japanese firms in the period 1961–70 (of US$1.979m and $US927m, respectively), one would expect the predominant governance structures of the leading alcoholic beverages firms in those countries to reflect the national systems of corporate governance. Intriguingly, the predominant governance structures in the alcoholic beverages industry were characterised in that period by 'insider' ownership and 'personal' control. By 2000, however, while 'insider' ownership still predominated, corporate control had become 'managerial'.

In order to explain this apparent mismatch this section uses the two dimensions – management control systems and ownership structures – analysed in section two in order to look at the predominant systems of corporate governance in global industries. Each of the four quadrants of the matrix in Figure 1 offers an alternative combination between management control systems and ownership structures.

Figure 1 – Industry systems of corporate governance

Ownership Structures \ Management Control Systems	**Personal**	**Managerial**
Insider	Entrepreneurial-based	Marketing-based
Outsider	Information-based	Technology-based

Industries are considered to be 'entrepreneurial based' when 'personal' control and 'insider' ownership characterize the predominant forms of governance. They tend to rely on the capabilities of the entrepreneur, who simultaneously owns and manages the firm. The entrepreneur has superior judgment, which enables him or her to exploit economic opportunities.[19]

The predominant governance structures of firms in the alcoholic beverages in the 1960s, when the industry was still fragmented and family firms predominated, was thus

[19] Mark Casson, *The Entrepreneur: An Economic Theory* (Oxford: Martin Robertson, 1982); *idem*, 'The Entrepreneur as Coordinator', in Martin Carter, Mark Casson and Vivek Suneja (eds.), *The Economics of Marketing* (Cheltenham: Elgar, 1998).

entrepreneurial. It is also possible to find ‘entrepreneurial-based’ global industries which are highly concentrated with a small number of very large firms. The consultancy industry is an example. Multinational firms like McKinsey which rank among the world’s leaders are in fact owned by the entrepreneurial ‘partners’ which simultaneously manage and control the business.

In Figure 1, industries are considered to be ‘technology-based’ when their predominant governance structures are characterised by ‘managerial’ control and ‘outsider’ ownership structures. Firms operating in this type of industries commonly appear in the ranking of the world’s leading industrials such as those in the *Fortune 500*, and are widely studied in business history. Chandler in *Scale and Scope* traces the management control systems and ownership structures of these kinds of firms relating that evolution to technological innovation. Examples of leading industries that fit in this category are the chemical and automotive industries – where Ford might be characterised as the exception to the rule.

Industries are considered to be ‘information-based’ when their predominant governance structures rely on ‘personal’ control and have ‘outsider’ ownership structures. An example is the high tech industry, where the founders of the firms are often their managers and have control over decision taking. However, as a result of their process of growth, the firms became publicly quoted and the entrepreneurs lost control over the ownership of shares, which became widespread among a large number of shareholders. Nonetheless, as the most important input is human capital, the ability of the founders to inspire loyalty and commitment remains important well after they surrender financial control. For example, Apple and Microsoft are each still led by one of their founders. The Apple case suggests that these are not simply first-generation effects in young industries. It tried to move to a purely managerial system when Steve Jobs, the founder, was replaced by John Scully as CEO. The subsequent collapse of Apple’s fortunes, even when Scully was replaced, suggests the importance of the entrepreneurs vision. Apple only returned to prosperity when Jobs returned as CEO.[20]

Industries are classified as being ‘marketing-based’ when the predominant governance structures are characterised by ‘managerial’ control and yet have ‘insider’ ownership structures. By the end of the twentieth century, the alcoholic beverages and cosmetics industries, where brands are often linked with family ownership, are good illustrations.

Figure 1 provides essentially a static picture as it categorizes the predominant systems of corporate governance of industries at a particular moment in time. It can, however, be used in a dynamic way if applied to the study of particular industries at different periods. For example, the alcoholic beverages industry between 1960 and 2003 evolved from being ‘entrepreneurial-based’ to ‘marketing-based’. A similar analysis could be made for the predominant governance structures of other industries over time, but that is out of the reach of this study.

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[20] Andrew Grove, *Only the Paranoid Survive* (London: Doubleday, 1996); William Gates, *The Road Ahead* (London: Vicking Press, 1996); Jim Carleton, *Apple: The Insider Story of Intrigue, Egomania and Business Blunders* (New York: Times Business Books, 1997).

Most industries that are ‘technology-based’, ‘marketing-based’ or ‘information-based’ are usually in advanced stages in their evolution, having started by being ‘entrepreneurial-based’. However, as already mentioned, ‘entrepreneurial-based’ industries may also correspond to advanced stages in their lives. These processes of evolution of corporate governance do not, therefore, necessarily converge on one particular type, but correspond to adaptations to different requirements by these industries.

Industries that became ‘information based’ were able to grow by keeping ‘personal’ management control systems characterised by simple organisation structures and centralisation of decision taking, but changed their ownership structures into ‘outsider’ systems as they required high capital investments. In contrast, the industries which moved from being ‘entrepreneurial-based’ to ‘marketing-based’ developed complex organisation structures as a result of their expansion in terms of business activities and geographical scope of operations becoming ‘managerial based’, but required relatively low capital investments when compared with ‘technology-based’ industries. They were, however, able to keep ‘insider’ ownership as shares remained in the hands of a small number of investors.

4. ‘Marketing-based’ industries

Despite the extensive literature which makes comparative analysis of the evolution of national systems of corporate governance, there are no systematic accounts of the wide range of combinations of ownership and control that corporations are increasingly forming, perhaps because the Chandlerian model tends to assume that all governance is converging. By focusing on ‘marketing-based’ systems of corporate governance, this study associates the evolution of ownership and control in the alcoholic beverages industry with the increasing impact of marketing knowledge in the growth and survival of firms. Marketing knowledge is defined as the knowledge within the firm about marketing methods, the management of brands and distribution channels. It is specific to the firm, differentiating it from its competitors, and may promote or limit its success.

This concept combines evolutionary economics with the theory of the entrepreneur, and considers firms to have two types of marketing knowledge. One type is ‘sticky’ to the firm, is path dependent (being accumulated within the firm over time), and deals with the management of short-term volatility. It refers to the routines and procedures within the firm designed to harmonize decision taking and to carry out organisational action in the short-run.[21]

The other type is of knowledge is ‘smooth’ and deals with the management of long-run volatility.[22] It is of more broad application as it can be applied to the management of different firms and distinct industries. It may be brought into the firm through the appointment of managers with professional accreditation, training and marketing skills. These managers have various skills, to enhance the profitability of the firm, such as the ability to rejuvenate brands, to turn local brands into global brands and to form alliances in distribution.

At the early stages of the life of a firm, marketing knowledge is essentially ‘sticky’. For example, when the entrepreneur (or founder) has an idea such as a new brand, the

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[21] Richard R. Nelson and Sidney G. Winter, *An Evolutionary Theory of Economic Change* (Cambridge, Mass: Harvard University Press, 1982), 4, 14; Sydney G. Winter, ‘On Coase, Competence and Corporation’, in Oliver E. Williamson, Sidney G. Winter (eds.), *The Nature of the Firm: Origins, Evolution and Development* (Oxford: Oxford University Press, 1991), 10, 30, 187; Jos C. N. Raadschelders, ‘Evolution, Institutional Analysis and Path Dependency: An Administrative-History Perspective on Fashionable Approaches and Concepts’, *International Review of Administrative Sciences*, Vol. 64 (1998), 565–82; Harry Scarbrough, ‘Path(ological) Dependency? Core Competencies from an Organizational Perspective’, *British Journal of Management*, Vol. 9 (1998), 221; Kent Eriksson, Anders Majkgard and D. Deo Sharma, ‘Path Dependence and Knowledge Development in the Internationalisation Process’, *Management International Review*, Vol. 40, No. 4 (2000), 308.

[22] The point of departure for the analysis of stickiness of technical knowledge is Kenneth J. Arrow, ‘Classification Notes on the Production and Transmission of Technical Knowledge’, *American Economic Review*, No. 52 (1969), 29–35. John Seely Brown and Paul Duguid, ‘Knowledge and Organization: A Social-Practice Perspective’, *Organization Science*, Vol. 12, No. 2 (2001), 198–213, explore the issue of sticky and smooth or ‘leaky’ knowledge both within and between firms. See also Casson, *The Entrepreneur*.

routines and procedures that he creates its implementation are 'sticky' to the firm. They may include procedures for the procurement of raw materials, the production process, bottling, the ageing process, the distribution system and sales and marketing of the brand. These routines enhance decision taking and organisational action in the short-term.

As time passes, some of the routines become obsolete and may threaten the brand if not abandoned. If the brand succeeds, it is necessary to acquire marketing knowledge to keep the brand alive and rejuvenate it. The manager needs to have the capabilities to up-date such routines, to adapt the brand to changing consumer preferences. While the firm is still small, it is possible for the entrepreneur to centralize the management, ownership and control of the firm.

Once organizational complexity and diversity increases, the entrepreneur needs to acquire 'smooth' knowledge by hiring professional managers. These professional managers have the credentials, which will allow them to update the routines and procedures developed by the entrepreneur and to deal with short-term volatility. On the other hand the entrepreneur can concentrate on long-term issues, such as building new routines if exogenous shocks occur, making existing knowledge obsolete.[23] He also has more availability for valuing brands and looking at their future earnings.

4.1 Corporate Control

National systems perspectives tend to explain family control based on the existence of illiquid markets, and vulnerable businesses, especially in adverse economic environments. However in the global alcoholic beverages industry, none of these reasons explain the predominance of family businesses even in countries such as the US. There are other reasons, not directly connected with financial interests, which seem to explain such trends. 'Private benefits' such as the pursuit of dominance, the ambition to perpetuate the family name, and the search for recognition, honour and prestige rather than performance related pay, are factors usually mentioned in studies on the endurance of firms.[24]

These family firms succeed in separating ownership from control by keeping tight control in the boards, where decisions which have long-term implications in the evolution of firms are taken. This is evident in firms such as Bacardi and Heineken, which at the beginning of the twenty-first century remained owned by families. However, they had switched from using family members as managers to hiring professionals to run their businesses, while the families nonetheless retained ultimate control. In Bacardi this switch took place with the appointment of Chip Reid in 1996 as CEO of Bacardi to re-

[23] Christiansen Clayton, *The Innovator's Dilemma* (Cambridge, Mass: Harvard University Press, 1996).

[24] Colin Mayer, 'Firm Control', Inaugural Lecture delivered to the University of Oxford (18 February 1999).

place Manuel Jorge Cutillas, great-great-grandson of the founder. Initially this change in management caused some friction among shareholders (who were some 500 heirs of Don Facundo Bacardi, the founder of the firm), not only because Mr. Reid was the first CEO not to be a family member, but also because he had been previously a mergers and acquisitions specialist in a Washington law firm with no operating experience in the consumer goods industry. In 2000 Mr Reid resigned and was replaced by another hired manager who became CEO and chairman of the group.[25]

In Heineken this switch took place in 1989 with the retirement of A. H. Heineken. The chairmanship passed to a professional manager who had been working for the company for his whole career. However, Heineken, like Bacardi, remained a family-controlled firm with A. H. Heineken (and after his death, his daughter) owning 50.5 per cent of the shares of Heineken's holding company, which controlled 50.5 per cent of the Heineken brewery.[26]

The switch from 'personal' control systems to 'managerial' control is not however always so straightforward. In some cases family members remain as top executives of the firms, sharing the day-to-day management with hired professionals. In others cases, they delegate the day-to-day management totally to professionals and become non-executive top managers. Anheuser-Busch, Brown-Forman, Interbrew, and Pernod-Ricard are illustrations of the distinct forms that family control may take.

Anheuser-Busch had August A. Busch III as its chairman at the end of the twentieth century. However, in the year 2000 the firm appointed a professional manager as CEO and president. He had been working for Anheuser-Busch for 31 years and had accumulated a wide range of experience, having been involved in building the company's global leadership position.[27]

In Brown Forman, another family firm, the chairman and CEO – Owsley Brown II – was also a family member. But like Augustus Busch III, in 2000 Mr Brown II appointed a graduate from Princeton and Harvard Business School, who had been working for the company from 1963, as president of Brown Forman.[28] Similarly, in 1999, the chairman of Interbrew, Baron Pierre Jean Everaert, who is a family member, appointed a professional manager with experience in consumer products as CEO of the firm.[29]

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[25] Mr. Reid had been an adviser in the creation of a single global holding company in 1992 to unify five separate operations of Bacardi in 1992, and had advised Bacardi on the $2 billion acquisition in 1993 of Martini & Rossi, the Italian owned drinks group. 'A Spirited Strategist', *Financial Times* (8 March 1999).

[26] Interview with Jan Beijerinck, former Worldwide Client Services Director of Heineken, Utrecht, 10 March 2001; Heineken, *Annual Reports and Accounts* (1989); 'Head of Heineken brewing family dies aged 78', *Financial Times* (4 January 2002).

[27] 'St. Louis-based Anheuser-Busch announces new CEO', *St. Louis Post-Dispatch* (30 July 2000).

[28] 'Brown Forman names Street President of the corporation', *PR Newswire* (15 November 2000).

[29] Interbrew, *Annual Report and Accounts* (2000).

After its creation in 1975 as a result of the merger between the two French firms Pernod and Ricard, Pernod Ricard was run by Thierry Jacquillat. He was a professional manager who later married into the Pernod family, playing a key role in the creation of the group Pernod-Ricard. In 2000, after his retirement as president, Jacquillat became vice-chairman and Patrick Ricard, another family member, became the chairman and CEO of the firm. Additionally two joint managing directors were hired to run the business. Neither of these managers was a family member. One had previously been chairman of Irish Distillers, and the other had previously been chairman of Pernod Europe.[30]

Seagram hired professional managers to run the business after the death of the founder Samuel Bronfman in 1971. One of the managers, Phillip Beekam, who had previously been president of Colgate International, had an important role in the introduction of marketing techniques to Seagram during the 1970s. Throughout this period Edgar Bronfman and Charles Bronfman, the two sons of the founder, kept their positions as chairman and CEO, thus ensuring tight control of decision taking.[31] Seagram reversed the trend towards independent management in 1990, when Edgar Bronfman Jr., the grandson of the founder, took over the management of the firm until it was sold to Vivendi in 2001.[32]

4.2 Concentrated ownership: does it matter?

This raises the question of whether it matters if ownership is dispersed or controlled by a family, provided that there is professional management running the firm. The evidence provided by the alcoholic beverages industry indicates that having ownership concentrated in the hands of a small number of shareholders, in particular families, has had important implications for the growth and survival of firms and the evolution of the industry in general.

There are two arguments which justify this. One is of more broad application and concerns the capacity of firms to overcome the free-rider problems that afflict capital markets with dispersed ownership, and also regulation systems, such as investor protection.[33]

The most important reasons are however specific to the global alcoholic beverages industry. In some sectors, such as whisky, port wine or sherry, brand image is often as-

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[30] Pernod-Ricard, *Annual Report and Accounts* (2000).

[31] 'Records of the Seagram Company Ltd.', Record Group 2, Accession 2126 (Hagley Museum and Library, Wilmington Delaware); Edgar M. Bronfman, *Good Spirits. The Making of a Businessman* (New York: G.P. Putman's Sons, 1998); The Seagram Company Ltd, *Annual Report and Accounts* (1971, 1977).

[32] The Seagram Company Ltd., *Annual Report and Accounts* (1989, 1990).

[33] Schleifer and R. W. Vishny, 'Large shareholders and Corporate Control', *Journal of Political Economy*, Vol. 94 (1986), 461–88; R. La Porta, F. Lopez-de-Silanes, A. Schleifer and R. Vishny, 'Legal Determinants of External Finance', *Journal of Finance*, No. 52 (1997), 1131–50.

sociated with heritage. Having family members who also represent the living icons of the brands enhances the heritage image of those brands.

Another reason concerns the longevity of brands. Families tend to take more long-term views than professional managers in their investment decisions. However, the strategies may differ, according to the cultural environment of those firms.[34] Similar reasoning may be applied to the lives of brands. The evidence provided by the world's most successful brands in alcoholic beverages shows that most are long established, and some go as far back as the eighteenth or nineteenth century.[35]

A final reason for why family ownership predominates in this industry relates to the private interests of the entrepreneurs, such as ambition to build an empire, or preserve the family name, which can be achieved because the capital required for investment is primarily for marketing, and thus can be obtained from retained profits, without the firm having to recur to capital markets.

4.3 The case of LVMH

Despite the waves of mergers and acquisitions that occurred in the alcoholic beverages industry from the 1960s, family members often remained as shareholders of the acquiring firms, taking non-executive positions on the boards.[36] The ownership structure of LVMH after the 1987 merger of Moët-Hennessy with Louis-Vuitton is a good illustration of this situation.

In France, the merger between Moët & Chandon and Hennessy in 1971 united France's biggest exporters of champagne and cognac respectively, allowing the two companies to take advantage of their similarities in terms of the 'personalities' of their brands and the geographical scope of operations, as well as to economize on costs of, for example, distribution.[37]

At the time of the merger there were four groups of shareholders: 32 per cent of the capital was held by the consortium Financière Agache and Guinness headed by Bernard Arnault; 14 per cent was held by the Chandon, Moët, Mercier and Hennessy families; 23 per cent by the Vuitton family, and 31 per cent by the public. The board comprised 12 members, 4 from the Agache/ Guinness group, 4 from the Vuitton family and 4 from the

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[34] Geoffrey Jones and Mary B. Rose, 'Family Capitalism', *Business History*, Vol. 35, No. 4 (1993), 1–16; Roy Church, 'The Family Firm in Industrial Capitalism: International Perspectives on Hypotheses and History', *Business History*, Vol. 15, No. 34 (1993), 17–43.

[35] Paul Duguid, Developing the Brand: The Case of Alcohol, 1800–1880, *Enterprise & Society*, Vol. 4, No. 3 (2003), 405–41.

[36] Teresa da Silva Lopes, 'Brands and the Evolution of Multinationals in Alcoholic Beverages', *Business History*, Vol. 44, No. 3 (2002), 1–30.

[37] *Records of Moët et Chandon, 1971*; Moët-Hennessy, *Annual Report and Accounts* (1971); M. Refait, *Moët Chandon: De Claude Moët à Bernard Arnault* (Saints Geosmes: Dominique Guéniot, 1998), 172.

Moët-Hennessy family.[38] The tight links established between the majority shareholders and the board of directors reduced the risk of opportunistic behaviour by the management of the firm (a risk considered to exist when the shares are widely dispersed among a large number of shareholders, and no single shareholder is in a position to control the affairs of the firm). Minority shareholders had no representation on the board at that time, even though the firm was publicly quoted.

The case of LVMH also illustrates another trend in the corporate governance of alcoholic beverages firms for creating interlocking shareholdings. With the formation of LVMH, Guinness (a leading UK multinational) became a shareholder together with Financière Agache through a holding company called Jacques Rober (60 per cent owned by Financière Agache and 40 per cent by Guinness). Conversely LVMH acquired Guinness's shares obtaining a 12 per cent ownership in that firm. Despite Bernard Arnault's initial opposition to the merger of Guinness with Grand Metropolitan to form Diageo in 1997, this interlocking shareholding between the two firms remains until the time of writing, and there have only been a few changes in the percentages of the interlocked shareholdings.[39]

Together with interlocking shareholdings it is common for firms to have interlocking directorships. For example, at the time of the LVMH merger, Bernard Arnault, who became the company's chairman, also had a position on Guinness's board of directors. Conversely, Anthony Tennant, Guinness's chairman, had a position on LVMH supervisory board.[40]

But multiple directorships may also exist independently of interlocking shareholdings. For example by 2000 Bernard Arnault was also on the board of directors of other firms including Vivendi.[41] These multiple directorships, which usually occur among large firms, are considered not only to bring prestige to the directors and the firms they manage, but also to reduce transactions costs, when the firms involved have transactions amongst themselves. In this sense multiple directorships can be considered as a hybrid mode for organising transactions, which lies midway between 'markets' and 'hierarchies'.[42] The case of Bernard Arnault's participation on Vivendi's board of directors provides, however, an additional insight into the mixture of co-operation and competition that interlocking directorships create in the alcoholic beverages industry. He would have had an interesting view of the fate of Seagram, which, as mentioned earlier, was first bought by Vivendi, before its alcoholic beverages business were sold to Diageo

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38 Barclays de Zoete Wedd, 'LVMH' (1988).

39 'Cognac threat to Diageo deal', *The Independent on Sunday* (23 July 2000).

40 Guinness, *Annual Report and Accounts* (1988); LVMH, *Annual Report and Accounts* (1988).

41 Vivendi, *Annual Report and Accounts* (2000).

42 Oliver E. Williamson, *Markets and Hierarchies* (New York: Free Press, 1975); Frans N. Stockman, Rolf Ziegler and John Scott, *Networks of Corporate Power: A Comparative Analysis of Ten Countries* (Cambridge: Polity Press, 1985), 274.

(which owns a substantial share of Arnault's LVMH) and Pernod-Ricard, a major French competitor of LVMH.

4.4 Other sources of concentration of shareholdings

But it is not only families that concentrate ownership of firms. Financial intermediaries such as banks, insurance companies and pension funds have also contributed to a reconcentration of corporate power in the global alcoholic beverages industry. Even when families control the firms, these institutions tend to have a substantial number of shares traded through the market. An example is Pernod-Ricard, where the French bank Société Générale has an indirect ownership over the firm corresponding to 5.6 per cent.[43]

Carlsberg, the leading Danish brewer, is yet another case. It is controlled by a foundation formed by the founder of the firm in 1906. In 2000 the Carlsberg Foundation owned 55 per cent of the shares, other Danish investors such as banks, insurance companies, and pension funds controlled 28.5 per cent, and foreign institutional investors controlled 16.5 per cent.[44]

This association with other institutions through their investment in the capital of alcoholic beverages firms may bring several benefits for firms. For example, when obtaining loans banks tend to accept a higher risk in financing their own entrepreneurial ventures.[45]

[43] Pernod Ricard, *Annual Report and Accounts* (2001).

[44] Carlsberg, *Annual Report and Accounts* (1999/2000).

[45] Naomi R. Lamoreaux, *Insider Lending* (Cambridge: Cambridge University Press, 1994), 9.

5. Conclusion

This paper analysed the evolution of ownership and control of firms in global industries, focusing on the study of the leading multinationals in alcoholic beverages. Diageo and Allied-Domecq from the UK, Anheuser-Busch and Brown Forman from the US, LVMH and Pernod-Ricard from France, Interbrew from Belgium, SAB-Miller from South Africa, and Asahi and Suntory from Japan. These are some of the leading multinationals in alcoholic beverages, which result from several mergers and acquisitions of long established firms. Although the US and UK firms tended to develop earlier into large firms, by the beginning of the twenty-first century Continental Europe and Japan had also developed leading multinationals.

The level of concentration of ownership was an important factor influencing their process of growth. Regardless of national systems of corporate governance, family ownership remained predominant in this industry, even though certain managerial firms (such as Diageo, Allied-Domecq, and SAB) had also become very important as the industry consolidated internationally.

Initially firms were 'entrepreneurial-based' with ownership and corporate control concentrated in the hands of a small group of investors, mainly families. Over time they developed distinct institutional arrangements. In alcoholic beverages they had become 'marketing-based'. Ownership tended to remain concentrated in the hands of families or restricted groups of investors, but corporate control was now in the hands of professional managers.

This study suggests there are several reasons for this apparent mismatch between the existing literature on national systems of corporate governance, and the actual institutional arrangements that predominate in some global industries such as alcoholic beverages. The first is that those studies tend to make generalizations based on industries and firms that are dominant in their countries' economies. The second is that different industries require distinct corporate capabilities. It is the way in which these capabilities evolve over time that leads firms to adapt their ownership and control structures.

In some industries such as automotives or pharmaceuticals, which are technology-based, the predominant governance structures of firms adapted by having dispersed ownership of shares and managerial corporate control. In other industries such as alcoholic beverages or cosmetics, where the distinctive capabilities required by firms are marketing knowledge, systems adapted by keeping insider ownership structures, while switching to managerial control. This knowledge, which basically relates to the management of brands, has two main parts. One part is 'sticky' to the firm, and is accumulated over time. Another part is 'smooth' and may be acquired by hiring professional managers. As a result of their process of growth most firms tended to acquire 'smooth' knowledge, and to switch from 'personal' to 'managerial' control. In this process, it was possible for ownership to remain concentrated due to the characteristics of the business, where the main investments are in marketing and brand management, and where the cash flows generated by the operations of firms tend to be sufficient to cover those investments.

This study shows that as we move from looking at countries to looking at industries and firms, the picture is quite different from that claimed in the literature on the evolution of systems of corporate governance. In global industries which are not dominant in anyone country’s economy, the predominant systems of corporate governance may evolve into a wide range of combinations of ownership and control.

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