1

Brands and the Evolution of Multinationals

Issues

This book is concerned with the growth of multinational firms in the global alcoholic beverages industry since 1960.[1] This is a period when the industry underwent several major changes, the most significant of which was a profound concentration as leading local and regional firms made multiple international mergers and acquisitions, becoming large multinationals. This concentration accompanied rapid internationalization, diversification, and ultimately globalization. Until the 1960s, production and consumption were essentially country and culture specific. Each country consumed predominantly one type of alcoholic beverage, usually domestically produced, and this pattern determined the kind of firms that developed faster.[2]

This story of multinational growth within the alcoholic beverages industry highlights the role of brands in the dynamic evolution of firms and industries. The focus in this book is on developing the understanding of the role of brands in the growth strategies of internationally competing firms.[3] Brands can affect the life of firms in many subtle ways: they can enhance total turnover, bulk up the financial statements, and cause changes in organizational structures. Brands allow firms to take advantage of premium prices, obtain efficiencies in distribution, and accumulate marketing knowledge. These income-enhancing attributes led in the 1980s to important changes in accounting practices by firms that started to include brands in their balance

[1] Multinationals are enterprises that have crossed borders, engage in foreign direct investment, and own or control value-adding activities in different regions of the world, even if most of the sales are concentrated in a small number of markets. They operate in distinct institutional environments, not being entirely within the jurisdiction of any single government. Multinationals tend to dominate major international industries, such as alcoholic beverages. John H. Dunning, "The Globalization of Firms and the Competitiveness of Countries," in John H. Dunning, Bruce Kogut, and Magnus Blomström (eds.), *Globalization of Firms and the Competitiveness of Nations* (Lund: Institute of Economic Research, 1990): 9–57; Alan Rugman and Alan Verbeke, "Towards a Theory of Regional Multinationals: A Transactions Cost Economics Approach," *Management International Review*, Vol. 44, No. 4 (2004): 3–15.

[2] See Appendix 1, "Value-Added Chain in Alcoholic Beverages."

[3] See Appendix 2, "Brands Owned by the Leading Multinationals in 2005."

sheets.[4] Since financial analysts tend to favor companies with strong brands, firms find their competitive positions strengthened.

Apart from looking at the role of brands in the growth of firms, I also invert conventional wisdom and examine the role of firms in the life of brands. In particular, I focus on the capacity of some brands to outlive firms and develop independent and eternal lives. This means I look not only at brands traded together with the firms that own them, but also at brands traded independently of firms, more or less as pieces of intellectual property.

Brands have recently become the subject of a vast body of research. However, most of the research is in the management literature and tends to focus on the relationship between brands and consumption, on problems such as adaptation *versus* standardization in different cultures, the social aspects of brands, and brand identity. Indeed, these represent the most pressing issues initially facing the growing number of firms learning how to compete internationally. There is less research using a business historical perspective. Mira Wilkins in 1992 highlighted that problem.[5]

I also explore the importance of other critical determinants, including the role of marketing knowledge, alliances in distribution, and, in particular, different forms of corporate governance in the growth of firms. These factors tend to be neglected by management literature, which focuses essentially on explaining the behavior of large capital-intensive and technology-driven firms. This study of the role of brands in the growth of multinationals in the alcoholic beverages industry is timely for several reasons. First, because it shows the power of brands in determining such growth, and in shaping the structure of industries. Second, because my subject is an industry that, over time, created more homogenous consumption patterns among a large number of consumers from different parts of the world. And third, because I can analyze the process by which industries can move from being national and locally focused to being dominated by a small number of large firms active globally.[6] In addition, the industry offers useful illustrations about

4 C. Napier, "Brand Accounting in the United Kingdom," in Geoffrey Jones and Nicholas Morgan (eds.), *Adding Value: Brands and Marketing in Food and Drink* (London: Routledge, 1994): 76–100; John M. Murphy, "Assessing the Value of Brands," in John M. Murphy (ed.), *Branding a Key Marketing Tool* (London: Macmillan, 1992): 194–97; Peter Doyle, "Building Successful Brands: The Strategic Options," *Journal of Marketing Management*, Vol. 5, No. 11 (1989): 77–95; Mark Casson, "Brands: Economic Ideology and Consumer Society," in Jones and Morgan (eds.), *Adding Value*: 41–58. Note Casson argues that brands may also accrue rents and distort markets, and that the enormously positive effects of brands reflect "economic ideology" rather than empirical analysis.

5 Mira Wilkins, "The Neglected Intangible Asset: The Influence of the Trademark on the Rise of the Modern Corporation," *Business History*, Vol. 34, No. 1 (1992): 66–99.

6 Ronald Coase in his work on the nature of the firm also recognizes the importance of studying industries. Ronald H. Coase, "The Nature of the Firm: Influence?" in Oliver E. Williamson and Sidney G. Winter (eds.), *The Nature of the Firm: Origins, Evolution and Development* (Oxford: Oxford University Press, 1993).

the longevity of firms and the role of families in the successful development of brands.

The chapters are thematic rather than providing a comprehensive history of each firm. The first theme concerns the general patterns that might explain growth and independent survival of multinational firms in alcoholic beverages. Edith Penrose is probably one of the best-known researchers to have written on this topic. Penrose argued that growth was strongly associated with a number of competitive advantages, among which were branding and advertising.[7] In the context of international business, John Dunning created the "eclectic paradigm" to explain international production, but his model has also been applied to services. Dunning suggests that for firms to succeed in international markets they need to have ownership advantages (e.g., brands and superior technology), as well as location and internalization advantages.[8] I present a large amount of evidence to explain which determinants were important for the development of multinationals in alcoholic beverages.

Brands are, nonetheless, considered to be the most important determinant in the growth of firms. Brands explain to a considerable extent the evolution of industry structures. Business historians such as Mira Wilkins and, more recently, Nancy Koehn have drawn attention to these issues in the growth of modern business.[9] The role of brands is even more striking when looking at the number of cases where firms have disappeared but their brands survived, having multiple ownerships and enjoying eternal lives.

A second theme pursued here is why most of the leading multinationals of alcoholic beverages are family owned. The Chandlerian model, based

[7] Edith Penrose, *The Theory of the Growth of the Firm* (Oxford: Blackwell, 1959/1995): 254.

[8] John H. Dunning, "Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach," in B. Ohlin, P. O. Hesselborn, and P. M. Wijkman (eds.), *The International Allocation of Economic Activity* (London: Macmillan, 1977): 395–418.

[9] Mira Wilkins, *The Emergence of Multinational Enterprise* (Cambridge, Mass.: Harvard University Press, 1970); idem, *The Maturing of Multinational Enterprise* (Cambridge, Mass.: Harvard University Press, 1974); idem, *The History of Foreign Investment in the United States to 1914* (Cambridge, Mass: Harvard University Press, 1989); idem, *The History of Foreign Investment in the United States 1914–1945* (Cambridge, Mass: Harvard University Press, 2004); Nancy F. Koehn, *Brand New* (Boston, Mass.: Harvard Business School Press, 2001); Geoffrey Jones, *Renewing Unilever: Transformation and Tradition* (Oxford: Oxford University Press, 2005): chapter 5; idem, *Multinationals and Global Capitalism* (Oxford: Oxford University Press, 2005); Roy Church and Christine Clark, "The Origins of Competitive Advantage in the Marketing of Branded Packaged Consumer Goods: Colman's and Reckitt's in Early Victorian Britain," *Journal of Industrial History*, Vol. 3, No. 2 (2000): 98–199. For an analysis of brands in the evolution of firms in the context of alcoholic beverages, see Teresa da Silva Lopes, *Internacionalização e Concentração no Vinho do Porto, 1945–1995* (Porto: GEHVID/ICEP, 1998); Paul Duguid, "Developing the Brand: The Case of Alcohol, 1800–1880," *Enterprise and Society*, Vol. 4, No. 3 (2003): 405–41. See also Paul Duguid (ed.), "Networks in the Trade of Alcohol," *Business History Review*, Vol. 79, No. 3 (2005); "Why Brands Are Good For You," *The Economist* (6 Sept. 2001).

essentially on the world's leading high-tech and capital-intensive firms, suggests that widespread ownership predominates and families can hinder the growth of firms.[10] I offer a case study of the evolution of a global industry, covering different countries and challenging Chandlerian assumptions.

A third theme is concerned with channel management. Transaction cost economists study the motivations for internalization or, alternatively, the conditions that allow cooperation to be the better option.[11] I offer a dynamic story about the changing relationship between producers, wholesalers, and retailers, where competition and cooperation are very common. Again, I challenge Chandlerian studies on the largest U.S. enterprises that claim that beverages such as coffee and soft drinks are better distributed through vertically integrated channels.[12] In the alcoholic beverages industry, alliances between direct competitors in distribution appear to have been very significant in the international expansion strategies of the leading multinational firms.

The fourth theme pursued is the diversification strategies used by the leading multinationals in alcoholic beverages in the face of changing environmental circumstances. I look at why these changes took place, what kind of knowledge the leading multinationals acquired and developed over time that allowed them to follow distinct strategies and yet achieve similar leadership positions by the twenty-first century.[13]

A fifth theme, again a Penrosian topic, looks at the growth of firms through mergers and acquisitions. It focuses, however, on the role of brands and marketing knowledge in that process. In industries like alcoholic beverages, brands are distinctive combinations of cultural characteristics and values. Consequently, they are much more independent of the firms and of the ownership of production than in other industries. Even when they depend on the location of production, brands are often assets that can be easily traded. Indeed, it will be argued below that the acquisition of brands became a strong determinant of concentration in the alcoholic beverages industry.[14]

A final theme pursued is the impact of firms in the life of brands. The alcoholic beverages industry has provided some of the oldest and best-known brands in the world. It is not surprising, then, that some of these brands, like the firms that created them, go far back in time. In some cases brands have remained under the same family ownership throughout their lives; in others,

[10] Alfred D. Chandler Jr., *Scale and Scope* (Cambridge, Mass: Harvard University Press, 1990).
[11] Ronald H. Coase, "The Nature of the Firm: Influence?" in Oliver E. Williamson and Sidney G. Winter (eds.), *The Nature of the Firm: Origins, Evolution and Development* (Oxford: Oxford University Press, 1993); Oliver E. Williamson, "The Modern Corporation: Origins, Evolution, Attributes," *Journal of Economic Literature*, Vol. 19 (1981): 1537–68.
[12] Chandler, *Scale and Scope*.
[13] On the theory of multiproduct firms, see David Teece, "Towards an Economic Theory of the Multiproduct Firm," *Journal of Economic Behaviour and Organization*, Vol. 3 (1982): 39–63.
[14] Penrose, *The Theory*: 254.

they outlived the entrepreneurs and firms that created them, having multiple ownerships during their lives. Even though these changes in ownership are often more apparent than real, with licensing deals or alliances transferring effective control to another institution while ownership stays with the original firm, different owners seem to develop brands in different ways. This chapter looks at the evolution of global brands, the distinct roles played by the entrepreneurs and managers who created and developed those brands.

Brands

A brand is defined as a legally defensible proprietary name, recognized by some categories of consumers as signifying a product with dimensions that differentiate it in some way from other products designed to satisfy the same need. A common characteristic of global brands is that even if their sales originate from a small number of markets, they are available in many markets.[15]

Brands may add value to the consumer in multiple ways. They may promote not only the tangible characteristics of a product, but also intangible characteristics, which can either be functional and objective (such as quality, value for money, and consistency) or abstract and emotional (reflecting psychological and social values such as prestige associated with products from a certain region or country and heritage).[16] They may convey information and help simplify decision making for the consumer by giving a sense of security and consistency, and supporting his "fantasies."[17] Furthermore, brands are an important way for firms to communicate with consumers and cultivate their loyalty. They also add value to the firm by sustaining a continuing revenue stream because of the consumer propensity for long-term brand loyalty.[18]

[15] For alternative definitions of brands, see Kevin Lane Keller, *Strategic Brand Management* (London: Prentice Hall, 1998): 4; Leslie de Chernatony and Malcom McDonald, *Creating Powerful Brands* (Oxford: Butterworth-Heinemann, 1998); Leslie de Chernatony and G. McWilliam, "The Varying Nature of Brands as Assets," *International Journal of Advertising*, Vol. 8 (1989): 339–49; idem, "Brand Consultants' Perspectives and the Concept of the Brand," *Marketing and Research Today*, Vol. 25, No. 1 (1997): 45–52; G. Michel and Tim Ambler, "Establishing Brand Essence Across Borders," *The Journal of Brand Management*, Vol. 6, No. 5 (1999): 333–45; Kevin Lane Keller, "The Brand Report Card," *Harvard Business Review* (Jan.–Feb., 2000): 147–57; Susannah Hart and John Murphy, *Brands: The New Wealth Creators* (London: Macmillan, 1998).

[16] Leslie de Chernatony, *Brand Management* (Aldershot: Ashgate, 1998); Leslie Chernatony and Francesca Dall'Olmo Riley, "Defining a Brand: Beyond the Literature with Experts' Interpretations," *Journal of Marketing Management*, Vol. 14, No. 5 (1998): 417–43; Steven King, *Developing New Brands* (Bath: Wiley, 1973).

[17] David A. Aaker, *Building Strong Brands* (New York: Free Press, 1996); Peter Doyle, "Building Successful Brands: The Strategic Options," *Journal of Marketing Management*, Vol. 5, No. 11 (1989): 78.

[18] P. Barwise and T. Robertson, "Brand Portfolios," *European Management Journal*, Vol. 10, No. 3 (1992): 277–85.

Several studies have proposed models to analyze the nature of brands, although authors differ in the amount of emphasis they give to the tangible and intangible elements of brands and also to their other aspects.[19] This book focuses on the intangible elements of brands and the value they add to firms. Such intangible elements include the uniqueness of the brand and its "personality," built over time, embedded in a particular culture or associated with a particular set of values (such as heritage or country image), and with an economic value associated with the investments made to build its reputation.[20]

The "personality" of brands in alcoholic beverages is associated with the characteristics of the industry where products tend to have long life-cycles, and brands acquire associations with tradition, heritage, and country of origin.[21] While country of origin is particularly important in wines and spirits (being sometimes perceived as even more than with conventional brands),[22] the ability of the brand to indicate age and tradition is also relevant. Consequently, it is not surprising to see some remarkably old brands in this industry.

In many cases the personality of brands and their longevity also reflect the significance of having been first movers in a particular market. In such cases brands may set the standard against which subsequent entrants in that market are judged and may simultaneously raise the cost of entry for new brands and firms.[23] To be able to sustain the value added by its brands in the face of competition, however, and especially when the product to which they refer is in fact similar (such as the case for whiskies with similar blends carrying different brands), even first movers must invest in marketing to ensure that consumers do not perceive rival brands as acceptable substitutes.[24]

In wines, a different type of branding has been developing in recent years. While old world wines have, to a significant degree, been branded by region,

[19] For a review of the existing models, see Leslie de Chernatony and Francesca Dall'Olmo Riley, "Modelling the Components of the Brand," *European Journal of Marketing*, Vol. 32, No. 11/12 (1998): 1077–90.

[20] V. N. Balasubramanyam and M. A. Salisu, "Brands and the Alcoholic Drinks Industry," in Jones and Morgan (eds.), *Adding Value*; Birger Wernerfelt, "A Resource-based View of the Firm," *Strategic Management Journal,* Vol. 5 (1984): 171–80.

[21] John Kay, *Foundations of Corporate Success* (Oxford: Oxford University Press, 1993): 299; P. Feldwick, "Defining a Brand," in D. Cowley (ed.), *Understanding Brands* (London: Kogan Page, 1991): 19; W. J. Bilkey and E. Nes, "Country-of-Origin Effects on Product Evaluations," *Journal of International Business Studies*, Vol. 13, No. 1 (1982): 89–99.

[22] G. Erickson, R. Jacobson, and J. Johansson, "Competition for Market Share in the Presence of Strategic Invisible Assets," *International Journal of Research in Marketing*, Vol. 9, No. 1 (1992): 23–37; C. K. Kim and J. Y. Chung, "Brand Popularity, Country Image and Market Share: An Empirical Study," *Journal of International Business Studies*, Vol. 28, No. 2 (1997): 367.

[23] R. Schmalensee, "Product Differentiation Advantages of Pioneering Brands," *The American Economic Review*, Vol. 72, No. 3 (1982): 360.

[24] Trevor Watkins, *The Economics of the Brand* (Whitstable: McGraw-Hill, 1986): 3.

de novo wines are branded by individual firms. The former are subject to problems of free riding by low-quality producers who can damage the status of the region as a whole. The latter, by contrast, have more control over the perception of their brand. New branded wines tend to be produced in "new world" countries such as the United States, Chile, Argentina, Australia, and New Zealand. The brands emphasize the grape variety above the region or the date, giving the consumer an alternative (and easier) way of sorting through the wide variety of brands from the old world wines where *terroir* and date are highly important, but highly variable. Private brands are thus the most important part of the strategy used in the marketing of new world wines. These branded wines offer an accessible starting point for new drinkers, providing some sort of guarantee that they will get what they are paying for from one outlet and from one year to the next. For the companies they offer the prospect of creating consumer loyalty and hence higher sales volumes, profit margins, and lower risks from asset specificity.

Marketing Knowledge and Entrepreneurship

Marketing knowledge is considered here to comprise the "intelligence" and the skills that are deployed in the management of firms' activities. This definition draws on evolutionary and neo-Schumpeterian concepts of the role of the entrepreneur.[25] I draw on Penrose's concept of knowledge, which considers the firm to be an evolving collection of resources: the optimal growth of the firm involves a balance between exploitation of existing resources and development of new ones. Following this view, Kogut and Zander contend that the multinational corporation arises out of superior efficiency as an organizational vehicle by which firms transfer knowledge across borders.[26] According to these authors, firms grow on the basis of their ability to create new knowledge and to replicate this knowledge so as to expand their markets. Their advantage lies in being able to understand and carry out this transfer more effectively than other firms. Entrepreneurs discussed in this book coordinate scarce resources in new ways and thus disturb the markets, technologies, and organizational methods. They have the capacity to

[25] Richard R. Nelson and Signey G. Winter, *An Evolutionary Theory of Economic Change* (Cambridge, Mass: Harvard University Press, 1982).

[26] Penrose, *The Theory*; Bruce Kogut and Udo Zander, "Knowledge of the Firm and the Evolutionary Theory of the Multinational Corporation," *Journal of International Business Studies*, 24 (1993): 625–45. For an early recognition of Edith Penrose's work in Business History, see Louis Galambos, "Business History and the Theory of the Growth of the Firm," *Explorations in Entrepreneurial History*, Vol. 4, No. 1 (1966): 3–14; William Lazonick, "Understanding Innovative Enterprise – Toward the Integration of Economic Theory and Business History," in Franco Amatori and Geoffrey Jones (eds.), *Business History Around the World* (Cambridge: Cambridge University Press, 2003).

innovate, turning opportunities into new products and services, and are not concerned with the risk of incurring major sunk costs.[27]

Taking into account the above definitions of *marketing knowledge* and *entrepreneur*, I argue here that firms have two types of marketing knowledge. One type is "sticky" to the firm, and is path-dependent (being accumulated within the firm over time).[28] This type of knowledge involves the routines and procedures within the firm designed to harmonize decision taking and to carry out organizational action.[29] It can only be learned through personal experience, in the long term. It is embedded in the firm's routines and structure, and is comparable to Penrose's and Polanyi's definition of implied knowledge, that is, "tacit" and acquired through operating in the market.[30]

The other type of knowledge is "smooth," and is of broader application as it can be applied to the management of different brands and firms in distinct industries. It can be accessed by the firm in the short run, either directly through acquisitions, alliances, and the hiring of consultants or through the appointment of managers with professional experience, training, and marketing skills. These managers focus on enhancing the profitability of the firm by, for example, rejuvenating brands, turning local brands into global brands, and forming alliances in distribution. Indirectly, published studies and academic courses, especially in more recent times, may also provide some of this knowledge about specific countries and the industry.[31] Smooth knowledge is comparable to Penrose's concept of "objective" knowledge.

[27] J. A. Schumpeter, *Capitalism, Socialism and Democracy* (London: Unwin University Books, 1943); Mark Casson, *The Entrepreneur* (Oxford: Martin Robertson, 1982); idem, "Entrepreneurship and the Dynamics of Foreign Direct Investment," in P. J. Buckley and M. Casson, *The Economic Theory of the Multinational Enterprise* (London: Macmillan, 1985).

[28] 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.

[29] 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; 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.

[30] Penrose, *The Theory*; Michael Polanyi, *The Tacit Dimension* (London: Routledge, 1966).

[31] About international marketing knowledge, see also S. Tamer Cavusgil, "Perspectives: Knowledge Development in International Marketing," *Journal of International Marketing*, Vol. 6, No. 2 (1998): 103–12.

Marketing knowledge may either have the characteristics of a public good, such as knowledge about the preferred type of distribution channels to serve a particular market (alliances, wholly owned channels, or simply exports), or of an intangible and legally protected asset, such as the capacity to create and manage successful brands. This concept is used throughout the book to explain, for instance, why some firms are able to merge and acquire other firms and other brands, and also why some firms have the capacity to create and manage successful portfolios of global brands.

The processes by which firms create and acquire sticky and smooth marketing knowledge are not mutually exclusive. On the contrary, by acquiring smooth marketing knowledge, firms are at the same time acquiring sticky marketing knowledge. However, while smooth marketing knowledge may be sufficient to enable firms to grow and survive in domestic or geographically limited and other benign environments, they need to have acquired high levels of sticky marketing knowledge to become leading multinationals and still grow and survive in adverse environments.

Ownership and Corporate Control

Discussion of the separation of ownership and control of firms started early in the twentieth century with the work of Berle and Means (1932).[32] However, comparative analysis of national systems of corporate governance did not gain significance until the 1970s and 1980s, when studies focused on the largest firms in the industrialized countries and used the nation-state as the central reference for making comparative analysis on the evolution of their systems of corporate governance.[33] National systems of corporate governance, in a broad way, include the particular arrangements of hierarchy and market relations that 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.[34]

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

[33] Alfred D. Chandler Jr., *The Visible Hand* (Cambridge, Mass: Harvard University Press, 1977); idem, *Scale and Scope*; 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, 1993); John Scott and Catherine Griff, *Directors of Industry: The British Corporate Network 1904–76* (Cambridge: Polity, 1984).

[34] Richard Whitley (ed.), *European Business Systems: Firms and Markets in Their National Contexts* (London: Sage, 1992): 6; Richard Whitley, *Business Systems in East Asia: Firms, Markets and Societies* (London: Sage, 1992); idem, "Eastern Asian Enterprise Structures and the Comparative Analysis of Forms of Business Organization," *Organization Studies*,

In *Scale and Scope*, Chandler looked at the business history of the United States, the United Kingdom, and Germany, setting out an interpretation of the dynamics of industrial capitalism. On the basis of the evolution of the predominantly technology-based leading firms in each country, Chandler distinguished some key characteristics of capitalism, such as the extent to which leading firms established large managerial bureaucracies to coordinate a wide variety of activities and transactions, and the separation of owners from managers. Chandler created two categories for comparing corporate control, which refer to the mechanisms of decision taking by firms between countries. He believed that corporate control can be "personal" or "managerial."[35] It is "personal" when the firm is owner controlled. Chandler emphasized the importance of firms managed by their founders or by members of the founding families. In the absence of a precise definition of "family firms,"[36] this book includes not only firms owned, controlled, and managed by families, but also firms owned by families who run the corporate board, but which are managed entirely by professional managers.[37] In general, such firms lack extensive management hierarchies, but there are exceptions as some "managerial" firms, such as General Electric under Jack Welch, undoubtedly reflect the personality of powerful managers.[38]

In "managerial" enterprises, decisions about current production and distribution and those involving investments in facilities and personnel for future production and distribution are made by a hierarchy of lower-, middle-, and top-level managers governed by a board of directors. Therefore, there is a separation of stock ownership from operating and investment decisions. The United States is characterized by competitive managerial capitalism, the United Kingdom by personal managerial capitalism, and Germany by cooperative managerial capitalism, which combines aspects of US managerial capitalism with concentrated ownership and interfirm cooperation.

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.

35 Alfred D. Chandler Jr., "The Emergence of Managerial Capitalism," *Business History Review*, Vol. 58, (1984): 473–503.

36 Roy Church, "Family Firm and Managerial Capitalism: The Case of the International Motor Industry," *Business History*, Vol. 28, No. 2 (1986): 165–6; idem, "The Family Firm in Industrial Capitalism: International Perspectives on Hypothesis and History," *Business History*, Vol. 35, No. 4 (1993): 18.

37 Mary B. Rose, "Family Firm Community and Business Culture: A Comparative Perspective on the British and American Cotton Industries," in Andrew Godley and Oliver Westall (eds.), *Business and Culture* (Manchester: Manchester University Press, 1996); Andrea Colli and Mary B. Rose, "The Culture and Evolution of Family Firms in Britain and Italy," *Scandinavian Economic History Review*, Vol. 47, No. 1 (1999): 24–47; Alfred D. Chandler, "The Enduring Logic of Industrial 'Success,'" *Harvard Business Review* (March–April, 1990): 132.

38 More recently, 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.