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Radical Institutional Change at a Crown Corporation: the Liquor Control Board of Ontario, 1985-2010

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Abstract

Crown corporations continue to play a significant role in Canada's business sector. While some prominent ones have been privatized over in the last twenty years, a number have staved off privatization and have undergone major organizational transformations. One example of an organization that has undergone such changes is the Liquor Control Board of Ontario (LCBO): once a decrepit and inefficient retailer, it is now regarded as a leader in its field. This article draws on a Historical Institutional (HI) framework to help organize its empirical evidence. It will argue that Ontario's history and political culture, the interests of powerful actors and the LCBO's path dependent behaviour, all played significant roles in (re)shaping consumer preferences and influencing the decisions made regarding this Crown corporation's fate at the hands of all Ontario governments, particularly that of the Conservative government of Mike Harris. These province-specific structural factors are what best explain why the Ontario government continues to own and operate a very dynamic retailing entity. The LCBO's internal changes are in line with other efforts to reform or reorganize state institutions through the use of New Public Management (NPM) principles, but for the fact that this entity continues to remain in public hands. The analysis of internal reforms made to or by Crown corporations is a topic that remains relatively unexamined in public policy literature in Canada, and little has been done to link such changes to the development of a Canadian-specific theory explaining institutional change in our contemporary era. This article is a modest attempt to embark on such a dialogue.

Key words: New Public Management; Crown corporations; Historical Institutionalism; Institutional change; Alcohol distribution system; Alcohol policy.

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Of Canada's 400 largest corporations, forty are state-owned Crown corporations. Terence Corcoran, editor of the *Financial Post Magazine's* annual report on Corporate Canada, laments their continued existence (Corcoran, 2010). He, and many like him, continue to view state-owned Crowns as inefficient providers of goods and services, as well as (often) both poorly managed and governed corporate entities. But his views on them appear to go deeper than this. It is as if their public ownership somehow disqualifies them as legitimate firms when compared to their private sector counterparts. Such strong normative views are unfortunate, not merely because they fail to take into account the significant role Crowns have played in the development of Canada throughout its history, but because they prevent such critics from understanding or appreciating the incredible organizational reforms that the many Crowns have undergone. These are not the same stodgy Crowns of yesteryear. One example of a Crown corporation that has experienced this type of significant institutional change is the Liquor Control Board of Ontario (LCBO), which has gone through major changes to both its internal organization and its external governance structures over the last twenty-five years. The LCBO has gone from a poorly run, patronage-ridden, inefficient retailer to an award winning, dynamic retailer that is widely regarded as the leader in liquor retailing and marketing. Consumers enjoy shopping at the LCBO (Deloitte and Touche, 2005), and all relevant stakeholders strongly support it as well. Interestingly, all the other provinces (with the exception of Alberta) have, to varying degrees, continued to own and operate state-run liquor boards, and have sought to emulate the LCBO's retailing and organizational reforms. Explaining how this public retailer avoided privatization, and understanding how and why it changed as an organization, provides an interesting case-study for those interested in the evolution of New Public Management (NPM) practices in Canada at publicly owned Crowns, and allows for as a better appreciation of the nature of the institutional changes seen at a number of public bureaucracies.

This article examines how the LCBO has evolved over time.[i] By examining the development of this Crown corporation in detail, the article will help to illuminate a subject – the role and state of Canada's Crown corporations - that has not received much recent academic attention (Rea and Wiseman, 1985; Kirk Laux and Molot, 1988; Tupper and Doern, 1988) with one notable exception (Bellamay, 2005) whose book examines the development of the Polymer Corporation. The topic of Crown corporation privatization has received much more attention, being the key theme in much of the past literature on such entities, as well as of one more recent study on Canadian National Railways (Boardman et al., 2010). The continued existence of Crown corporations in Canada can be seen as both a product of our "red-tory" cultural heritage, as well as the synergies between our socialist and tory beginnings (Horowitz, 1966). Their continued existence also reflects the inherent structural problems faced by the Canadian business sector, and the need for direct state intervention into markets as a result of such problems, the most notable example of which is the strong public presence in the electricity generation and distribution industry (Nelles, 1974). One scholar has even gone further, suggesting that Crowns comprise a part of Canada's national identity (Hardin, 1974). While a number of high profile Crown have been privatized, both at the federal and provincial level, such as Canadian National Railways (CN), Air Canada, Petro-Canada, BC Rail and Manitoba Telecom, Crowns have played, and will continue to play, a significant role in Canada's economic and cultural development. As we will see, Canada's historical and cultural acceptance of using Crowns to solve collective action problems is partly why we witness such an interesting outcome in Ontario with the LCBO.

This article, then, will help to illustrate the institutional and governance changes that occurred at one Canadian Crown, the LCBO, and in doing so will help to illustrate the effects that New

Public Management (NPM) principles have had on state providers of goods and services in Canada. NPM's goal of "reinventing government" (Osborne and Gaebler, 1993) by importing ideals and values from the private sector into the public realm, the most notable of which call for outright transfers of public functions to the private sphere (often through privatization), if possible, or for increasing overall accountability within public bureaucracies by evaluating both inputs and outputs, gauging the relative productivity of all bureaucracies by using private-sector performance measurements (see Pal, 2006: 74-85 and Savoie, 1995). The LCBO imported both individuals and organizational techniques (including performance-based measurements) from the private sector, using many standard retailing methods to effect its transformation (McInerney and Barrows, 2002). What makes the LCBO such an interesting case study is that its transformation occurred while it was under public ownership. The reform efforts implemented at a number of Crowns that have not been privatized have received little in-depth academic attention, even thought a number of other liquor boards have undergone changes similar to those made by the LCBO, as have organizations like ATB Financial, an Alberta government-owned bank. One notable exception is the account by Bilodeau et al. (2008) of the successful "Corporatization" of a number of special operating agencies (SOAs) in the federal and Quebec governments. While the insights of these authors are very pertinent to this analysis, they do not mention the transformation of a number of Crowns, including the LCBO, and some of their findings are directly relevant to the changes seen at this organization.

It will draw upon a Historical Institutional (HI) framework to help organize its empirical data and to explain the intriguing policy outcomes at the LCBO. Its central question, too, is derived from HI: how did the LCBO change over this period and what were the key factors shaping this change? The question of how and why institutions change is a central component of HI. To explain observed changes, HI places emphasis on examining the specific context in which an institution exists within and focuses on assessing the significance of such things as history, political and cultural factors, their relationship to the institution under examination as well as an emphasis on the iterative and relational nature of all institutions to their political context. There is a complex dynamic between institutions and the context they exist within (See Steinmo and Thelen, 1992; Hall and Taylor, 1996; Thelen, 1999). Such a view, in this case, pushes us to look at the internal changes made at the LCBO, the effect they had on its political superiors and the relations of each to other actors in this policy sector, and to keep in mind that all of these interactions are confined within Ontario's unique political culture. HI can best explain the retention of the LCBO, despite ideological opposition from the Harris Conservatives, since it emphasizes context that is shaped by history, political culture and the interests of the other institutions that inhabit this policy realm. Internal organizational composition of the LCBO and its relations with external political variables (such as decision makers) also help to shape this policy outcome; "Institutional Dynamism" is at play in the evolution of this corporate entity (Thelen and Steinmo 1992). HI also has the theoretical space to account for the significance of the temporal sequencing of events and the importance of "path dependencies" (Pierson 2000), and it accepts the endogenous nature of preference formation (Thelen 1999). Unlike rational choice, which places particular emphasis on economic efficiencies and makes strong, normative claims on the value of the market place to produce optimal outcomes (Howlett and Ramesh, 2003), HI's focus on context and the significance of political efficiencies – given the historical, institutional context – demonstrates that these factors are of central concern to all governments. Alberta's successful privatization initiative, in both economic and political terms, demonstrates the viability of using market mechanisms to distribute alcoholic products in Canada, yet, no other province has followed its lead; all other provincial governments continue to play large roles in the distribution of alcoholic beverages through publicly-owned liquor boards. This interesting policy artifact is causatively related to political and institutional variables, rather than a drive to maximize economic efficiencies by using a market mechanism, and these factors are best captured through the use of a HI framework.

Its central argument is that successive Ontario governments, but especially the Conservative government of Mike Harris, which governed from 1995 to 2003, did not alter the liquor distribution market because such a decision would require significant political effort, while resulting in relatively marginal gains. More critically, it will be argued that an array of historically imposed institutional, political and cultural factors very much shaped the decisions made by all Ontario governments regarding the LCBO, but particularly those made by the Harris Conservatives. Governments only have a limited amount of time and energy, and accordingly, must dedicate that time and energy towards high priority policy goals. In the case of the Harris Conservatives, they were principally concerned with eliminating the deficit, reducing taxes (Ibbitson, 1997) and attempting to roll back the postwar Keynesian welfare state, goals which, on the surface, would seem to militate in favour of privatization of state-owned corporations like the LCBO. It is thus interesting to note that not only did the Harris government choose not to privatize the LCBO, despite claiming in their election campaign, the Common Sense Revolution (1994), that they would sell it off, but that it was actually instrumental in completing its process of modernization started some ten years before, by greatly increasing its capital allocations (see appendix A). The Harris Conservatives did more than any other previous Ontario government to solidify the public's ownership over this asset. Their decision, however, becomes comprehensible, once one understands (and as this article will make clear) that by making any changes to the composition of the Ontario liquor system, and the LCBO's key place within it, would run into opposition from a number of very strong interests, as well operate in opposition to the significant organizational changes that had already occurred within the LCBO before the Harris Conservatives came to power; changes that helped to ensure that the LCBO, if retained as a publicly-owned enterprise, would assist in meeting the needs of its political masters – the most critical of which is the need for a steadily increasing stream of revenue.

It will be organized in the following manner: the first section will briefly examine the historical origins of the LCBO; the second section will outline both the source and the results of the critical organizational changes to the institution that began in 1985, explaining how and why the LCBO set out to consciously alter consumer preferences regarding both the purchase and consumption of alcoholic beverages; the third section of the article will explain the composition of the Ontario liquor retailing market and illustrate why the participants in this oligopoly, as well as suppliers, did not and do not want to see any changes to the system or the LCBO's place within it; and the forth section will explain how the policy outcomes witnessed in this sector fit well with the historical and political culture of the province of Ontario. A few concluding remarks linking the empirical evidence with some wider trends in both the development of theory and of wider bureaucratic change will round out the article.

A Brief Background: The Path of the Old LCBO

The life of the LCBO can be divided into two distinctive phases. The first phase was from 1927 to 1985, and the second, the subject of this article, extends from 1985 to the present day. The LCBO was established in 1927 when the government of Ontario repealed prohibition. The government of the day sought a political compromise between Ontario's strong temperance movement, which ardently supported prohibition, and the citizenry's demand for alcoholic beverages, and chose to create a state-run liquor board that would strictly control alcohol sales. Initially, the LCBO was responsible for both the distribution of alcoholic beverages through wholesale and retail operations, and the regulation of alcohol sold in bars and taverns (it shed its regulatory role in mid-1990s). Its purpose was explicitly to "control" alcoholic consumption, and it set about to ensure that alcohol was expensive and difficult to acquire and enjoy. The LCBO's enabling legislation, *The Liquor Control Act* (1927), gave the LCBO a broad range of powers and responsibilities allowing it to control almost every aspect of alcoholic beverage consumption. The one notable exception to the government's monopoly was the sale of domestic beer, which was entrusted to The Brewer's Retail (now known as The Beer Store (TBS). Although temperance-inspired controls were a large part of the government's motivation in creating the LCBO, it was also were desperate for additional revenues, and was therefore quick to appreciate the LCBO's enormous revenue earning potential. Revenue earned by the LCBO helped to reduce a significant deficit (Schull, 1978).

While the LCBO was charged with enforcing a rigid alcohol regulatory regime over all aspects of consumption, this sixty-year period between 1927 and the mid-eighties did see a gradual liberalization of the rules governing liquor use. The elimination of a permit to purchase alcohol, the introduction of some self-serve stores and a reduction in the minimum age to purchase alcohol are tangible examples of a more relaxed attitude towards consuming alcohol, an attitude which continued to grow throughout the post-war period (Heron, 2003). Having said this, up until the mid-1980s, the LCBO largely continued to fulfill its original consumption-control purpose by remaining an old, stodgy retailer.

A Critical Juncture: Exogenously Imposed Change and the New Path for the LCBO

The LCBO's status as an inefficient retailer did not become politically significant until the election of David Peterson's minority Liberal government in 1985. His electoral victory signified the end of the post-war Tory dynasty in Ontario, and while he was unable to win a majority, Peterson governed for two years in a coalition government with Bob Rae's New Democratic Party (NDP). Peterson had campaigned to put beer and wine into corner stores, but this was unacceptable to Rae, given his connections to the labour movement. The government was embarrassed at the condition of the LCBO as a retailer, and both Rae and Peterson agreed that the LCBO required a massive 'modernization' effort. It was an exogenous shock, then, from the Premier's office that set the reforms in motion to fix this ailing public asset.

A number of key people spearheaded the modernization effort. Jack Ackroyd, Toronto's former Chief of Police, and a former provincial civil servant, Len Pitura, were initially charged with reorganizing the LCBO. They set out to make it a more effective retailer, one that, through new efficiencies, could increase its remittances to the provincial government. After a period of research and consultation, they decided to first increase the power of the CEO and board of directors, and to improve the LCBO's merchandising and distribution systems. To properly implement this new regime, they removed the existing board of directors and all of the board's executive staff. They then hired a new board, which would come to contain three very experienced and capable business people, and one medical doctor, and put in place a new executive team with private sector retailing experience. Their most notable hire was Larry Gee, a former Dominion Store executive, as Chief Operations Officer (COO). He was a competent, hardworking professional who can be credited with implementing many of the improvements at the LCBO, until his retirement in 2000.

There was one very clear stipulation that would now apply to the relationship between this new LCBO and its political masters. There was to be no more political interference in the day-to-day operations of the LCBO. The provincial government was free to set overall direction for the liquor retailer, but it could not use it to meet short-term political or partisan goals. The new executive team and board made it clear to the government that they would not tolerate political interference in the areas of human resources (patronage) or the leasing and purchasing of property, for instance, both of which were common practices at the LCBO during its earlier institutional life. The new board and team were of the view that successful reorganization could not occur if the government continued to meddle in what were essentially LCBO's business decisions. The days of using the LCBO for pork-barrel politics were over.

At the time that these reforms occurred, in the mid-1980s, the LCBO was an organizational and retailing disaster. Its retail and head offices were grossly over-staffed, due, in large part, to patronage appointees. Most of its store employees were poorly trained and were not particularly interested in serving customers well. The LCBO's head office contained no effective human resources, information technology or accounting and finance divisions, and its marketing and distribution systems were also substandard. As a result, its senior executives had no credible information on its retail operations; individual store sales information, for instance, took six months to reach upper management. Furthermore, the LCBO's store network was in terrible shape with haphazard signage and layouts and the like – factors that were largely due to the anaemic levels of available capital. In 1986, for example, the LCBO had a paltry $7.7 million to cover a store network of over 600 stores (see Appendix A). To provide a comparison, the Alberta Liquor Control Board (ALCB), which was still in existence at that time, spent $13 million on capital improvements in the same year, on a store network that was just over one-third the size that of the LCBO (ALCB, 1986: 11)

Slowly but surely, however, the new executive team transformed the LCBO. They sought to rebuild the LCBO's head office infrastructure, logistics and marketing systems, and retail outlets. Improving the quality of staff was critical to enhancing its retailing experience, and was accomplished principally by offering improved training for employees, as well as though reducing the number of employees by making some redundant. (All employees who were let go during this reorganization, it is worth noting, were released with very generous severance packages.) The executive team was required to implement these changes with access to relatively limited capital funds. Funds available for these improvements averaged a modest $17.65 million per year between 1985 and 1995.

Following this series of initial reforms, a new CEO, Andy Brandt, was appointed to head the organization in 1991. Mr. Brandt's appointment provided significant boost to the LCBO's modernization process. The premier at the time, Bob Rae, appointed Mr. Brandt, a former businessman, past leader of Ontario's Conservative Party and senior Cabinet Minister, in order to tap his business, but more critically, his political acumen. Mr. Brandt is a very intelligent, sociable, capable and politically savvy individual, who had an excellent understanding of Queen's Park and the mechanics of the provincial government. It is he who managed the LCBO's political affairs, helping to create the operational space for Mr. Gee and, a little later, for Bob Peter, to reform this organization. He was the seminal policy entrepreneur leading this reorganization (Kingdon, 1984), and, until his retirement in the spring of 2006, never missed an opportunity to promote the LCBO, its public ownership structure and the value of its revenue to Ontario's citizenry. Ten years of reorganization, occurring between 1985 to the mid-1990s, served to better position the LCBO to meet the needs of any future Ontario government, regardless of its partisan or ideological views. The renewed LCBO was not just charged with altering its own internal operations, but also set out to change the public's perception regarding the purchase and use of alcoholic products.

Institutions at Work: Endogenous Preferences

Throughout the LCBO's modernization process, the provincial government stipulated that it was to improve its remittances to the province, but that it was to do this without drastically increasing the volume of alcoholic beverages it sold. The government did not want any of the changes made to the LCBO's retail operations to make it appear as if the government was "pushing" Ontario consumers to indulge more. To accommodate these two (somewhat) conflicting criteria, the LCBO set out to alter the preferences of the alcohol-consuming Ontario public by convincing individuals to purchase higher-value alcoholic products. The ultimate goal of all of reform efforts at the LCBO was to alter public perception of alcohol consumption; drinking was not to be perceived as a sinful indulgence but, instead, as a normal part of a modern, healthy, middle-class lifestyle, as long as it is consumed in a responsible, moderate manner. Such a strategy would allow for an increase in the LCBO's remittances to the government without a correspondingly equal increase in the volume of alcohol sold - and consumed – in the province. Such changes were also intended to be a part of a strategy to gradually shift the burden of responsibility for consuming alcohol in a responsible manner away from the state institution that sold it, and towards the individual consumer. An increasingly health-conscious society, furthermore, would be more accepting of moderate (and refined) alcohol consumption (it is worth noting, however, that the LCBO takes its social responsibility role seriously, and has implemented tangible policies to help ensure that its products are sold to sober adults.) Such shifts in attitude, along with the changes made to the retail network, would also allow the LCBO to better appeal to an aging, health concisions population, as well as to females, who were specifically targeted by the LCBO's retailing reforms since they were underrepresented among the LCBO's client base.

So how exactly did the LCBO set out to alter the preferences of the Ontario public? By investing in its human and physical capital, and setting out to make its shopping experience second to none. In particular, it officially changed its moniker to the "LCBO" and brought in external consultant to develop a new colour scheme for its entire retail system: its stores, displays, signage and layouts and the like. Its new colour and design schemes were intended to emphasize its new image throughout its entire store network. The LCBO's investments in its human capital, mostly accomplished through improved staff product knowledge training as well as training to help ensure that its products are sold in a socially responsible manner, also served to make the shopping experience more pleasurable. The LCBO also diversified its employee base by hiring more women, part-timers and people with specific product knowledge. (After a brief period of resistance, the LCBO's unionized workers fully supported the LCBO's modernization efforts, recognizing that any additional training and specialized expertise would naturally help to maintain premium retailing wages for union members). Other improvements included accepting credit cards, Sunday openings, longer store hours, in-store sampling, and introducing refrigeration units for wine products, and especially for selling beer. (Imported and high value craft beers are two market segments that LCBO has aggressively sought.) All of these improvements were made in an incremental and very careful manner, as the various parties in power in Ontario during the reorganization period were concerned with any possible negative political or public reaction. An incremental approach was therefore necessary to secure the governments' blessings. The LCBO executives persuaded the government that all of the above changes were necessary in order to transform the LCBO into a modern retailer and to improve consumers' overall shopping experience. It did not describe them as mechanisms to increase alcohol sales, although the changes introduced by the LCBO's management actually served both of these goals. By the mid-1990s, much of the critical institutional reorganization of the LCBO had been completed, but limited capital continued to hinder its modernization efforts.

That changed when the Harris Tories authorized substantial increases in the LCBO's allotments of capital. In 1999, capital spending increased to $40.6 million and has averaged $52.5 million every year since then. These new monies allowed the LCBO to kick its modernization efforts into high gear. Much of these funds were spent to expand the LCBO's store network and to renovate existing stores. A select few new stores containing demonstration kitchens and specific sampling venues, were also built. In addition, a number of very large, opulent stores were built in specific markets throughout the province, including the LCBO's flagship store at Yonge and Summerhill, which is a rebuilt CPR station and is nothing short of an astonishingly beautiful retail location. While not all stores are as extravagant as the flagship, the interiors, displays, layouts and lighting in your average LCBO store are exceptional. Another innovation introduced by the LCBO was its *Food and Drink Magazine* a free periodical, published six times a year, which contains a wide array of culinary receipts and ideas for entertaining and is extremely popular among its customers. A number of stores also have specific vintage sections, complete with their own staff, to sell higher-end wine to "discerning" consumers. Altering consumer preferences would require creating a lavish retail environment.

It is critical to appreciate that the LCBO is a politically palatable revenue earning institution. Its enormous "profit" - the money it remits to its political superiors - is comprised of three components, and there is no clear distinction between them. The first part is an operating profit derived from its distributive function. The next is a sin tax on alcohol. The third and most crucial component is a monopoly rent, combined with the other benefits of a centralized distribution system. This rent is derived from a number of sources, such as, for example, both consumers, the LCBO under-serves the market in a geographic and temporal sense, and suppliers, the LCBO has some significant bargaining power with large multinational suppliers to its own size as a retailer. (It is worth noting that the LCBO is a very good company to conduct business with and does not exploit its market power at the expense of its small and medium sized Ontario-based suppliers.) The monopoly rent portion of the LCBO's profit is also partly derived from efficiencies that come from having a uniform administration, marketing and finance systems. Most critically from a political standpoint, very few people appreciate how much of the price of all alcoholic products is really a sin tax collected in a variety of means from them on their indulgence. The

LCBO has successfully upsold consumers, convincing them to purchase high value products than they might otherwise have purchased, had they not been subjected to the LCBO's improved retail experience, slick marketing efforts and the like. Most consumers also do not realize how much of the price of their alcoholic products represents the efforts of both the federal and the provincial governments to fill their coffers. Revenue generation schemes like the LCBO are simply hard for governments to find.[ii]

Other Institutions in the Alcohol Sector: Powerful Interests

There are a number of influential interests in the Ontario alcohol arena that support the current composition of the liquor retail sector. The Ontario retail liquor market is an oligopoly. In 2008, by product value, the LCBO held 50.8% of the Ontario market, with 604 retail outlets that sell beer, wine and spirits. The LCBO shares the market with The Beer Store (TBS), which is owned and operated by Molson-Coors and InBev (Labatt), with Sleemans (Sapporo) holding a one percent share. TBS operates its own wholesale warehouse system that supplies its 440 retail outlets, and is limited to selling imported and domestic beer. In 2008, TBS had 29.5% of the market. During that same year, there were also 429 wine stores, which held a combined share of 2.7% of the market. These stores were and are limited to selling wine products that are produced by the firms that own the stores (LCBO, 2008: 18 and 45). Two firms, Andres and Vincor, owned approximately 290 of these stores in 2008; the third largest wine store operator, Colio Estates, had 14 stores. The remaining stores, for the most part, consist of single on-site winery stores. The rest of the market is split among the LCBO's agency stores, duty-free outlets, on-site distillery and brewery stores, as well as the home brew and illegal segment. For all of Ontario's 13 million citizens there are a total of 1,745 retail outlets selling alcohol. To provide some contrast, in 2009 Alberta's 3.5 million residents had a total of 1,707 venues from which to purchase beverage alcohol (Alberta Gaming and Liquor Commission, 2009). Owning and operating a liquor retail outlet in Ontario is a lucrative privilege. Both the large brewers and the Ontario wine sector are well-financed and well-connected entities in the Ontario political scene, and are able to ensure that their rights are not threatened by any substantial alterations to the alcohol retail market place.

Suppliers of alcoholic beverages, for the most part, also support the current market structure in Ontario and the publicly owned LCBO. This is largely because of the low transaction costs incurred when dealing with this retailer - marketing, administration and distribution expenses are reduced considerably when interacting with one large operator that has consistent province-wide policies and operational systems. The LCBO is an efficient retailer that treats its suppliers well and does its best to sell alcohol in a socially responsible manner. More competitive markets, such as Alberta's, often require suppliers to incur higher distribution and marketing related costs (one needs a large sales force to convince small retainers to carry your products, for instance). A system such as Alberta's also facilitates more competition at the wholesale level. By contrast, once a supplier has established a relationship with the LCBO and has secured shelf space within its stores, it has access to a large market through a relatively low costs distribution system. The spirits industry, in particular, is solely dependent on the LCBO to sell its products. It has therefore been, and continues to be, a fervent advocate and supporter of the LCBO's modernization efforts, and especially of the LCBO's emphasis on offering high value products for sale. Supplying such products is vastly more profitable for sprit producers, and a system like the LCBO's allows them a forum to build stronger consumer brand loyalty (there are, for example, no private label, generic spirits sold in Ontario.) The Ontario spirit industry is a significant employer and exporter of alcohol, and like the large brewers and Ontario wine producers, as well as other suppliers of alcoholic beverages, plays a significant role within the Ontario political scene. These producers also do not want to see any significant changes to Ontario's current liquor distribution regime.

It is also important to note that the LCBO, as well as the rules and regulations that govern Ontario's alcohol distribution system, are specifically designed to assist Ontario based alcohol producers. The assistance provided by both this organization and the rules that govern it have proven to be particularly important to Ontario's wine industry, and have fostered its growth. In fact, some have argued that the Ontario wine industry would not exist were it not for the interventionist measures of the Ontario government (Mytelka and Goertzen, 2004). More recently, the LCBO has made a concerted effort to help promote Ontario-made craft beer made by local producers. The LCBO makes special efforts to promote many Ontario liquor producers by giving them prominent shelf space and actively promoting their products through tailored marketing initiatives. Ontario-made wines, for instance, are subject to slightly lower mark-ups than their international competitors (58% rather than 64%). In addition, products sold in Ontario wine stores are subject to a mere 2% mark-up, and can be sold directly to restaurants and bars (something other suppliers are not allowed to do). Ontario wine makers can also retain their best products for their own stores, rather than being forced to supply them to the LCBO (again, other suppliers to the LCBO have met with firm resistance when they have attempted to limit product shipments to the LCBO). The LCBO and the Ontario government also actively support and promote Ontario-made beers with preferential tax rules, as well as through more active promotional programs. Growth of the small beer segment of Ontario's liquor market is one topic that highlighted, publicized and promoted in the LCBO's annual report, as is the proportion of Ontario-made wine products sold in its stores (LCBO, 2008: 2). Supporting the production of the Ontario wine and beer industries, and the accompanying jobs and spin off economic benefits they both provide, has been a priority of all Ontario governments. While a number of smaller wine and beer makers have some legitimate grievances with the structure of the Ontario system, (the LCBO and the market's structure do tend to favour larger, Ontario-based producers) and other supplier firms do have quibbles with the LCBO and its operations, none of them advocate for the wholesale privatization of the LCBO or any significant structural changes to the marketplace. Nobody wants to see what happened in Alberta, occur in Ontario.

Other actors in this policy sector have played a relatively marginal role in shaping the composition of the alcohol distribution system. While a coordinated effort by the LCBO's labour union, the public health community and others related to the industry mounted an effective criticism of any of the Tory plans to privatize the LCBO in the mid-1990s (Giesbrecht et al., 2006: 175-200), the Harris Conservatives never seriously considered altering the liquor distribution system. Accordingly, that government was never forced to consider what the union's (or any other interest group, apart from the liquor sellers' or producers') response would be to any real changes to the distribution system. Some of the public health community's concerns about alcohol distribution were alleviated by the Harris government's decision to continue the public ownership of the LCBO, as well as by the LCBO's efforts to distribute alcohol in a socially responsible manner. A number of public health experts do raise some legitimate criticisms of the LCBO's marketing tactics and efforts to normalize alcohol consumption; however, for the most part, they are more supportive of publicly owned monopolies than they are of the outright privatization of the industry (Giesbrecht et al., 2006: 201-208).

Political and Historical Culture of Ontario

The history and political culture of Ontario have had a tangible effect on the decisions made regarding the fate of the LCBO. There are two critical factors, stemming from Ontario's unique political culture, that warrant special consideration: a deep-seated reluctance to make alcohol easier to obtain, and a legacy of the government's involvement in both the agricultural sector and in the economy more generally. It is not that these factors necessarily dictated the decision-making terms to the key players, but rather that they helped to set the parameters of what was acceptable, and what was not, both to the public, and to the government itself. The Harris Tories could not escape the historical and cultural legacies of the province they governed.

Ontario's Protestant historical identity is particularly relevant to the evolution of the LCBO. The most tangible historical influence was the strong temperance movement, which manifested itself in Ontario in the early 20th century, led by groups such as the Christian Women's Temperance Union, and which resulted in outright prohibition between 1916 and 1927. The puritan, sober ethos of Ontario during that period was exemplified in the apt name given to its capital: "Toronto the Good." Ontario's general cultural aversion to increasing the availability of alcohol was apparent in the orders given to the LCBO in the mid-1980s to boost its revenues to the government without increasing the volume of alcohol sold. Vestiges of this attitude remained very much alive as a force in Ontario's political culture in the 1990s, when Mike Harris came to power, particularly from within the socially conservative and "law and order" components of Harris' own Conservative Party. A personal tragedy further stymied any impulses towards privatization. Mike Harris' close friend, Ernie Eves, had a son, Justin, who was killed in a 1995 auto accident that, most likely, involved alcohol. This loss was a deep blow to both men (Ibbitson, 1997).

The careful and incremental manner in which the LCBO modernized its stores is further testament to the inherent socially conservative nature of the province. For instance, even in the 1990s, when the LCBO was actively making attempts to improve customers' shopping experiences, trial runs of any innovations, such as placing refrigeration units in stores, were always conducted in the Ottawa area. It was thought that this city's population would be more tolerant and accepting of any such improvements, given the city's close proximity to the province of Quebec, where the rules regarding alcohol are noticeably looser. (The LCBO never ran any trials of its modernization initiatives in the London area). More recently, Ontario's premier, Dalton McGuinty, has defended the LCBO by saying " Thinking like a parent … I felt comforted by the fact that the Beer store and the LCBO was carding anybody who looked to be under the age of 25" (Ottawa Citizen, 2007). The LCBO's limited number of distribution points, relatively restricted hours of operation and the efforts made by its stores to sell alcohol in a socially responsible manner, along with other types of public health-type discourse it engages in, are used to help buttress arguments in support of retaining the LCBO in public hands. Such rhetoric helps to direct attention away from the much more critical fiscal and political reasons why the government of Ontario owns and operates a liquor retailer.

The Ontario government has a long history of state involvement in the economy, particularly in the agricultural sector. Starting early in its history, with the construction of canals and railroads, and culminating in the modern era with the creation of Ontario Hydro in 1905, which was created to help provide cheap and reliable power to industrial users, the private sector has traditionally welcomed the public capital that is often required for large-scale projects (Nelles, 1974). More recent examples of public ownership are the direct state-involvement in public transportation equipment manufacture, public broadcasting, and a railway and, the latest evidence of this tendency, with the purchase of stakes in and assistant for two automobile manufacturing firms. Throughout much of the postwar era, the Ontario government also made many efforts to intervene in the agricultural sector, often through the creation of marketing boards, in response to the political pressure from farmers (Rea, 1985). The LCBO's continued existence as a state-run enterprise, and its emphasis on promoting Ontario made products can be viewed as a modern-day vestige of a long tradition of state involvement in a variety of this province's economic endeavours.

Conclusion: HI and Institutional Change

The above case study of the LCBO study illustrates some important points regarding institutional change within a publicly owned and operated Crown corporation. The key event in the evolution of the LCBO was the externally imposed shock, coming from the Peterson Liberal government, which gave the directive to modernize the archaic LCBO. This directive from the executive, in conjunction with the real powers given to the early reformers, were the key "critical junctures" that redirected the LCBO, sending it down a new path, on its way to becoming an effective and efficient retailer, better able to meet the needs of its political superiors regardless of their partisan stripes. Such an event was important, since it meant that by the time the Harris Conservatives came to power in the mid 1990s, the LCBO was already well positioned, in its existing form, to help meet some of the Harris government's needs. Effective operational and political leadership at the LCBO also helped solidified its new positive organizational trajectory.

But, the decisions of all Ontario governments, including the Harris Tories, were very much influenced by the political and historical context within which this institution exists. The decision to retain ownership of the LCBO in public hands and the manner in which the LCBO developed its marketing strategies reflect the political and historical factors at play. In particular, they reflect an understanding, on the part of the Harris Tories, that any attempt to privatize would be met with strong resistance from suppliers and other retailers in the alcohol market, and that Ontario has traditionally had, and to a certain extent, continues to have a conservative social and political culture, one that remains apprehensive about making alcohol more freely available to the public. These factors, when combined with the organizational reforms to the LCBO already underway, helped to scupper any radical plans to privatize this institution. The proactive, policy-making potential of any government is severely limited by historical imposed institutional factors. No policy field is a "blank slate" but rather, is inhabited by significant actors that are used to certain consistencies; these factors limit government actions and decisions. The liquor distribution system in Ontario and the changes made to the both the LCBO's internal operations and its governance structure were made within a context whereby history and institutional configurations played a paramount role. HI is used specifically to highlight the importance of these factors and their effects on the decision making outcomes in this sector. Since there are few other case studies of organizational reforms made to publicly owned Crowns in Canada, it might be difficult to make any more general conclusions. Examining institutional change at other public owned Crowns – ATB Financial in Alberta and British Columbia Ferry Corporation are two good examples – could help to broaden our analysis of the critical factors leading to successful internal organizational makeovers to and changes to the governance regime in the Crown, as well as the relationships between Crowns and their political masters. More research is needed on the evolution of publicly-owned Crowns, in order to be able to better explain the key driving factors that push radical changes to these institutions through the political and policy spheres.

This case study does help to augment some of the literature regarding successful institutional change. A number of the governance and organizational changes noted by Bilodeau et al. (2006) in their analysis of successful changes at Special Operating Agencies (SOA) are applicable to the LCBO. The "conversion" (Hacker, 2005) included changes to its status (away from controlling alcohol to actively promoting its responsible use); narrower task domain (it no longer was responsible for liquor regulation); increased us of performance measures; increased power of the CEO, as well as greater discretion of the senior management to control budgets and employees. To this list, we can add three other critical factors necessary for the successful reorganization of public Crowns: a formal ending of political interference into day-to-day business decisions; increased allotments of capital, which are needed to improve the physical and human infrastructure; and the slow and careful, incremental manner that changes are brought about, which reflect governmental sensitivity towards negative, public responses to such changes. These external governance and internal reforms are necessary to make any changes possible within a public organization. Again, it is difficult to assess the importance of these factors at other publicly owned Crowns, but preliminary research on ATB Financial shows that ending political interference in its operations constituted a significant milestone in the reforms made to that institution in the late 1990s. Conversely, governance and organizational problems continue to hamper VIA Rail successful (re)development, but it has made some improvements, yet its overall institutional trajectory is unclear.

Whether or not the reforms initiated by the LCBO can be used, in a wholesale manner, by other Crowns or components of the public sector, as a template or model to follow when attempting to reform their own institutions is a subject open for debate. Certainly, some aspects of the LCBO's reform could be adopted by other institutions. The creation of new components or specialized branches within the institution, such as the human resources, logistics, finance departments that were added to the LCBO, management efforts to improve or fix up a sagging infrastructure, and the hiring executives from the private sector, are all examples of reform initiatives that the LCBO engaged in, and which could be replicated by other Crown corporations or public sector institutions as part of their own reform initiatives. It might also be possible for other public institutions to limit political interference with its operations; at least as such interference pertains to short-term decision making. However, in attempting to transfer lessons from the LCBO's reformation to other institutional contexts, it is important to remember that the LCBO is simply a retailer of alcoholic products and as such, has much more in common with Wal-Mart than it does with certain other public sector institutions that resolve much more complicated collective action problems. Selling alcohol is also a relatively easy thing to do, given alcohol's inherent attractiveness as a consumer good. As such, the lessons gleaned from the LCBO's reforms – improved productivity, operations and the like – may have a relatively restrictive application. It is much easier to evaluate the performance of a retailer, for example, and the impact that institutional change had on that retailer, than it is to assess the performance of an educational or health care system. The more significant finding is not the internal changes, but rather the fact that Ontario's provincial government, and every other Canadian government with the exception of Alberta, continue to own and operate large wholesale and retailers in the alcohol sector. This fact and the changes seen at the LCBO tell us about the unique manner is which Canadians choose to govern themselves and the nature of the relationship in Canada between the market, the state and its citizens.

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Appendix A: LCBO Key Operating Statistics

Year	Revenue (Net sales and other income millions $)	Percentage Change (year over year)	Remittances to Provincial government (millions $)	Remittances as a Percentage of Revenue (millions $)	Capital Spending (millions $)
1985	1,590	-	602	37.8	7.1
1986	1,646	3.5	638	38.7	7.7
1987	1,767	7.3	645	36.5	11.6
1988	1,860	5.2	635	34.1	9.9
1989	1,930	3.7	645	33.4	15.4
1990	2,006	3.9	640	31.9	23.7
1991	1,936	-3.5	650	33.5	29.7
1992	1,833	-5.3	675	36.8	25.7
1993	1,786	-2.5	615	34.4	21.1
1994	1,764	-1.2	585	33.1	14.7
1995	1,808	2.5	630	34.8	27.6
1996	1,909	5.5	680	35.6	27.1
1997	2,013	5.4	730	36.2	19.4
1998	2,160	7.3	745	34.5	25.6
1999	2,349	8.7	776	33.1	40.9
2000	2,549	8.5	795	31.1	54.4
2001	2,734	7.2	846	30.9	55.7
2002	2,939	7.5	901	30.6	55.7
2003	3,119	6.1	970	31.1	75.1
2004	3,320	6.4	1,035	31.1	53.4
2005	3,532	6.3	1,110	31.4	47.5
2006	3,682	4.2	1,195	32.4	54.5
2007	3,922	6.5	1,279	32.6	54.2
2008	4,133	5.3	1,345	32.5	63.6

Endnotes

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[i] This article is based on the author's doctoral dissertation from Carleton University's School of Public Policy and Administration entitled *The Rise of the Liquor Control Board of Ontario and the Demise of the Alberta Liquor Control Board: Why Such Divergent Outcomes?* Its findings were derived from over forty personal interviews conducted during the 2005/2006 academic year in both Edmonton and Toronto. The author would like to thank all participants for their time and efforts, and from Ontario these include: Andrew Brandt, CEO, LCBO, 1991-2006; Duncan Brown, CEO, Ontario Lottery and Gaming Commission, 2004-2007; Ian Campbell, Executive Director, Ontario Imported Wine-Spirit-Beer Association; Stephen Diamond, Board Member, LCBO; Roland Dunning, Executive Director, Canadian Association of Liquor Jurisdictions; Linda Franklin, President, Wine Council of Ontario; Larry Gee, COO, LCBO, 1988-2001; Guy Giorno, Chief of Staff, Mike Harris, 1998-2002; Cameron Heaps, Co-founder and President, Steam Whistle Brewing; Frank Heaps, Former CEO and owner of Upper

Canada Brewing; Tim Hudak, MPP; Gerry Ker, Senior Executive, LCBO; Julian Lewin, Senior Executive, LCBO, 1986-1996; David Lindsay, Chief of Staff, Mike Harris, 1995-1998; Andrew Murrie, CEO, Mothers Against Drunk Driving (MADD); Jeffrey Newton, President (East), Canada's National Brewers; Heino Nielson, Executive Assistant to the President, OPSEU; Barry O'Brien, Director, Corporate Affairs, LCBO; Bob Peter, President and CEO, LCBO; John Toogood, Deputy Chief of Staff, Mike Harris, 1995-1999; David Tsubouchi, Minister of Consumer and Commercial Relations, 1996-1999 ; Jan Westcott, Executive Director, Canadian Association of Canadian Distillers (Spirits Canada).

ii The price of alcohol is largely determined by a series of political considerations as to how much the provincial and federal government decide to expropriate from this industry; price, then, is not causatively related to the structure of the distribution system (or the level of direct state intervention through a state-owned liquor board) that is used to get alcoholic products from producers to consumers. The system for distributing tobacco products is wholly in private hands, yet the price of a pack of cigarettes has escalated substantially over the last few years, as both levels of governments have increased their revenue take from this industry.