

Wine business in Tuscany: evidence on entrepreneurial models and local systems¹

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Abstract

Despite the unquestionable success of the Tuscan wine business, little is known about the processes by which this success has been pursued and reached. No systematic research has been carried out on the path the regional wine industry has followed to turn from low to high quality productions nor on the emergence of local entrepreneurial models. Based upon case studies, this paper tries to identify the entrepreneurial models which coexist in the regional wine business through the investigation of wineries ownership and organizational structures as well as their strategic approach.

§ 1 presents an overview of the literature on the analysis of wine systems according to an entrepreneurial approach, § 2 presents the adopted conceptual framework, §§ 3 and 4 illustrate the methodology of investigation and the findings; § 5 discusses the findings and addresses issues for future research and limitations.

1. Literature overview

The importance of geographical concentration of firms embedded in local productive systems is well known in the economic literature (Becattini, 1989). It is also known that the firms' international success rely on a specific “national competitive advantage” in some industries (Porter, 1989). In general, the territorial dimension plays a non-marginal role in the development strategies of firms (Zanni, 1995; Chandler *et al.*, 1998; Becattini *et al.*, 2001). The success of the Italian wine business, one of the most important industries of the “Made in Italy”, can be traced back to two main variables:

- *environmental variables (industry and local-specific)*: land, production, consumption habits, related industries (distribution, tourism, etc.);
- *firm-specific variables*: structural (number of employees, under vine areas, investments, etc.) and strategic variables (product innovation, marketing and distribution policies, etc.).

In order to study the structural and behavioral characteristics of wineries, we will mainly refer to the managerial Italian literature that focuses on the inter-cluster network analysis. This approach seems to be appropriate for three main reasons:

- it detects the existence of some enterprises capable to start innovation processes within a territory and to manage networks of relationships. The literature refers to them as “*leading firms*”, in the middle of “business constellations” linked by equity and/or non-equity relationships (Lorenzoni, 1990; Lorenzoni, 1992; Lipparini, 1995; Lorenzoni-Baden Fuller 1995). These studies focus on the dynamic role played by some enterprises and the network of relationships they can form within and across the geographical bounds of the territorial system. Researchers supporting this view claim that (Boari-Lipparini, 1999): i) firms in the inter-cluster network are heterogeneous and not interchangeable in terms of roles and tasks; ii) some firms are able to design and manage a wide and differentiated network of relationships; iii) the competitive capability of territorial systems results from the behavior of some firms acting as disseminators of technology and knowledge;
- the existence of “social networks” seems to influence the business behaviors within the local system, even if some studies have produced contradicting results (see Butler-Phan-Hansen, 1991).
- the analysis of organizational structures helps to understand the innovation dynamics of territorial systems, on the basis of the position of firms along the complex “multi-level neural network” (Albertini-Pilotti, 1996) and of the role played by few institutional “nods” (consortia, promotion organizations, local authorities, syndicates, etc.).

Some authors claim that many local contexts, in addition to being places characterized by a specific productive vocation (wine in our case), are real “cognitive laboratories” (Becattini-

Rullani, 1993). The cluster is, in fact, a place where the accumulation of production experiences combine with the creation of knowledge. Of mainly practical and contextual nature, knowledge represents an immaterial strategic asset which results from the historical process of competence and capability accumulation enabled by the spatial proximity of firms and by social mechanisms of knowledge sharing (Corò, 1998; Antonelli, 1999; Becattini, 2000). Knowledge concerning processes and products may belong to professionals operating within the territory as service providers, to different local institutions (consortia, banks, associations, etc.), or to the entrepreneurs who localize their businesses within the territorial bounds. The relevance of single firms and their adopted entrepreneurial model in the development of a territorial system is emphasized by recent studies (Varaldo-Ferrucci, 1997; Bursi *et al.*, 1997; Zagnoli, 2001; Minoja, 2002). The central point of their argumentations is that different development paths of clusters cannot be fully explained without identifying and analyzing the multiple typologies of local firms, and the way they interact with each others. The performance of territorial systems seems to be strictly linked to single enterprises. Some of them are able to perform a propulsive function through the accumulation of resources, competences, and knowledge which are crucial for competition. Their configuration depends not only upon the forces acting on and within the local system itself, but also on the specific development path, learning processes, and capability to select opportunities of single firms as well as the way they interact with other local organizations (Bursi *et al.*, 1997).

This theoretical framework is taken as a reference paradigm for the empirical study. In particular, it is assumed that multiple typologies of firms coexist within territorial systems and that they may be studied through the analysis of their ownership and organizational structure, in addition to their strategies. According to Minoja (2002), we assume that the age of the firm (i.e. the year of foundation) may be useful to comprehend its current organizational structure and competitive behavior.

The empirical research adopted case study techniques and was conducted based on this interpretative paradigm. Case studies were used as plausibility probes to test the hypothesis that the time in which wineries were founded or acquired by new entrepreneurs influenced their present profile and the way they face the contingent competitive scenario.

The following section illustrates the conceptual framework we developed in a previous study (Zanni-Mattiacci-Nosi, *in press*) which helps to identify three historical periods characterizing the evolution of the Tuscan wine business; § 3 presents the adopted methodology of investigation; § 4 illustrates the findings emerged from the research; § 5 discusses the obtained results in the light of the literature and states conclusions addressing issues for future research and limitations.

2. Conceptual framework

Despite the numerous contributions of the literature on entrepreneurship (Lumpkin & Dess, 1996; Lyon, *et al.*, 2000), in this paper we will refer to a conceptual framework we developed in previous studies (Zanni *ed.*, 2004; Zanni-Mattiacci-Nosi, *in press*) in order to identify the entrepreneurial models coexisting within the Tuscan wine business. The dimensions considered in the definition of the entrepreneurial models refer mainly to the Italian scientific contributions on entrepreneurship (Vallini, 1990; Zanni, 1995) and includes the ownership and organizational structure of the firm, its strategic approach and the way the entrepreneur combined and leverage on resources and competencies in order to achieve the pursued objectives of the business activity.

Tuscan wineries show multiple historical backgrounds and evolution paths which seem to be at the basis of different entrepreneurial models:

- *traditional entrepreneurial models* – typical of smaller local wineries, mainly product-oriented, implementing adaptive strategies to respond to the competitive challenges of the

business scenario. In general, these producers are not able to accomplish effective marketing strategies or start innovation processes on their own, showing imitative behaviors and benefiting from the positive influences exerted by the business success of other wineries located in the same territorial system;

in transition local familiar models – most of these wineries belong to the regional ancient nobility who transformed part of the latifundium into vineyards. These families have been able to carry on a business which represents the continuation of an age-long activity, initiated by their ancestors and prosecuted by the following generations. These entrepreneurs have been able to redeem themselves from the past and to exploit the available material and immaterial resources, recombining them in order to face the renewed competitive scenario. They represent one of the entrepreneurial models of the Tuscan wine business, but it will not be taken into account in the present study;

- *exogenous entrepreneurial models* - in the last 45 years Tuscany has witnessed the massive increase of investments on the part of entrepreneurs coming from inside and outside the region (both from other regions of Italy and from abroad). The success achieved in the early 1970s by some local producers spurred new entrepreneurs to choose the region to localize their new ventures in the wine business and start a profitable activity. In the following decades, the arrivals of new entrepreneurs continued and the configuration of the Tuscan wine business went through a process of deep changes which radically transformed the traditional grape growing and wine making methods, turning the regional viticulture from low to high-quality. Among the new entrepreneurs, some were already working in the wine business and transferred the resources and competencies acquired through previous experiences into the new operative environment, enlarging their production capacity and products range, and benefiting from the synergies created with the activities elsewhere made (brand notoriety, distribution channels, R&D, etc.). Some others, that did not belong to the wine world, exploited the managerial/entrepreneurial capabilities they had developed in other business contexts, and endowed with the appropriate financial assets were able to purchase know-how and technologies to start the business “from outside”.

The conceptual framework presented above suggested the use of a categorization process based on the time wineries were founded or acquired by new entrepreneurs. We have divided the last 46 years of the Tuscan viticulture into three main phases: 1950-60s², 1970-80s and 1990s till the first years of the 21st century. Our aim was to verify if the year of foundation/acquisition exerted some influence on the way businesses are organized, structured and managed by the entrepreneurs.

Through the empirical research, we expected to verify the following hypotheses:

1. the year of foundation/acquisition of the winery influences the ownership and the organizational structure;
2. the year of foundation/acquisition of the winery influences the range of business activities and the type of implemented strategies and partnerships.

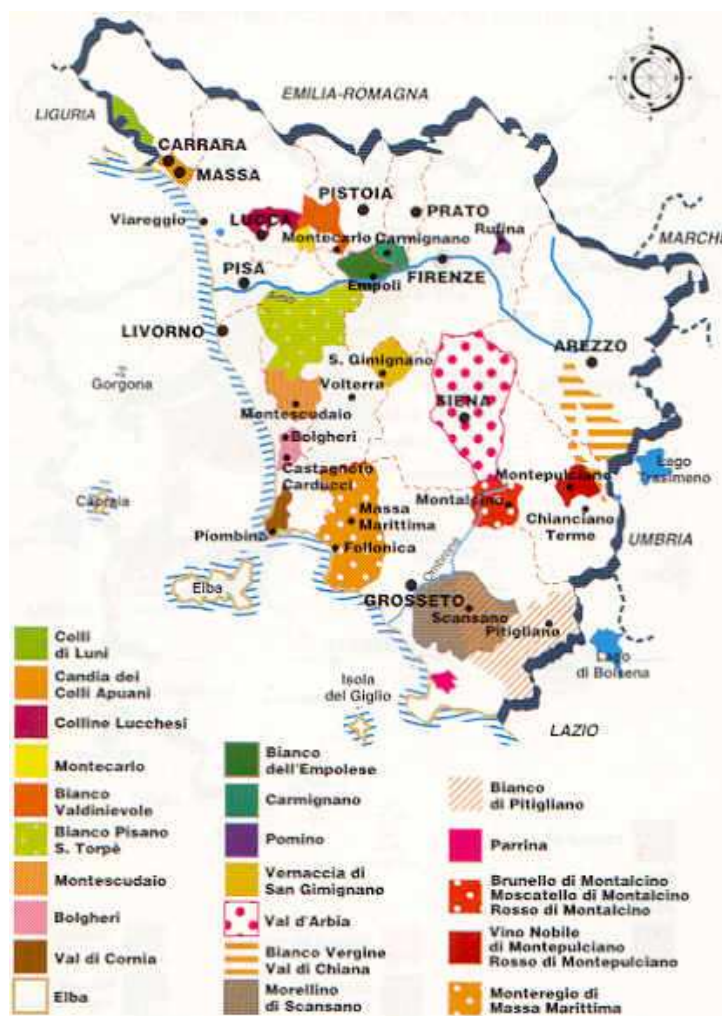
3. Method

Being the topic area under-investigated, the research adopted qualitative, case study-based techniques in order to test hypotheses made by the authors in previous researches. According to the literature (Selznick, 1949; Pettigrew, 1973), the case study research strategy was adopted to focus on understanding the dynamics present within single settings. An initial definition of the research question was made Mintzberg (1979) in order to specify the kind of organizations to be studied and the kind of data to be collected. Being of qualitative kind, the research relied on theoretical sampling: cases were not chosen for statistical reasons (Glaser &

² This category includes wineries born before 1950 that are still run by the founders.

Strauss, 1967), but to fill theoretical categories and provide examples of polar types. The study involved multiple cases and various levels of analysis (Yin, 1984), and combined different data collection methods such as archives, interviews, questionnaires, and observations.

Exhibit 1 – The Tuscan wine areas



3.1 Sample

Wineries were selected on the basis of the following characteristics:

- operating in Tuscany (Arezzo and Siena provinces);
 - being family businesses;
 - accounting for an under vine area of at least two hectares;
 - commercializing wine with their own brand;
 - being quality-oriented (the product range includes at least one Docg, Doc or Igt wine);
- The selection criterion regarding their origins includes:
- wineries founded before 1960 and still run by their founders³,

³ These wineries were included in the first category.

- wineries founded or acquired in the last 46 years (1960-2006).

In total 39, cases were selected from the two different areas of the region: 9 in the province of Arezzo (production zone of Docg Chianti Colli Aretini) and of Siena (20 in the Docg Chianti Classico and Colli Senesi, and 10 in the Docg Brunello di Montalcino).

The field research was accomplished by single investigators, in total three and each was assigned to cover a single production zone.

Each winery was contacted by phone and given an outline of the study. Interviews were conducted to the owner/one of the owners at the winery and included the submission of a questionnaire and the making of further questions to gain explanations of the given answers. A semi-structured case protocol and the questionnaire were used to help address reliability issues and facilitate comparisons among cases. Interviews lasted on average one hour, they were all taped and transcribed, for a total of around 40 hours of recorded material. During each visit, investigators carried out observations and included them on their report.

The questions (see Table 1) included discussion of organizational and production structure, implementing of innovations and strategies, building of partnerships with other organizations. We assumed that these dimensions were the most relevant in order to describe the entrepreneurial model adopted by wineries.

Tab. 1 – Investigated dimensions

Investigated dimensions

- Ownership structure
 - Owners involvement in the business activities
 - Presence of external management
 - Presence of consultants
 - Business activities
 - Innovations
 - Strategies
 - Partnerships
-

3.2 Analysis

The analysis of cases was made both on a within- and across-case basis, overlapping data collection and analysis (Eisenhardt, 1999). In addition to qualitative data collected through direct interviews and observations, frequency counts resulting from questionnaires were added (Mintzberg-McHugh, 1985). Qualitative descriptions (case study write-ups) were combined with tabular displays and graphics of information about each case. According to the adopted hypothesis, collected data were analyzed through a categorization scheme based on the year of foundation/acquisition: *1st period* (1950-1960s), *2nd period* (1970-1980s) and *3rd period* (1990-2000s).

The final report on each winery was enriched by data gained from further sources (specialized press articles, wine guides, wine atlas, wineries promotional material, etc.) in order to provide further background and triangulate the data. Copies of single reports were returned to each winery and revised by the interviewee to clarify possible inconsistencies and verify the exactness of transcripts. The findings were then discussed with some academics of the University of Siena and Florence, and with some wine business professionals in order to improve validity.

4. Findings

The results highlight some characteristics that seem to be common to all wineries:

- *juridical form*: the simple partnership seems to be diffusely adopted by wineries independently of the year of foundation/acquisition. This juridical form is often preferred by agricultural entrepreneurs since it benefits by simplified tax treatment and accounting system;
- *innovations*: all wineries show a low tension to innovate both at a process and at a product level;
- *strategies*: market consolidation (focusing) seems to be widely diffused while brand extensions (to products other than wine) and new brand acquisitions seem to be scarcely or not implemented.

Tab. 2 – Description of case study wineries

	1 st period wineries	2 nd period wineries	3 rd period wineries
Production (bottles)	12,000-65,000	10,000-65,000	6,000-65,000
Sales (2004)	40,000-800,000 €	60,000-500,000 €	38,000-350,000 €
Owners' provenance (frequency)			
1. Tuscany	12	7	7
2. Italy	1	4	3
3. Abroad	-	2	3
Juridical form (frequency)			
1. Simple partnership	12	11	10
2. Joint-stock company	1	2	3
External management (frequency)			
1. Head office	-	-	6
2. Finance/Accountancy	-	1	5
3. Domestic sales	-	1	1
4. Exports	2	3	2
5. Marketing	2	3	4
6. Vineyard	-	2	2
7. Cellar	-	2	2
Consultants (frequency)			
1. Head office	1	-	-
2. Finance/Accountancy	2	-	-
3. Domestic sales	2	-	-
4. Exports	2	2	-
5. Marketing	-	2	-
6. Vineyard	2	4	5
7. Cellar	2	6	5
Business activities (frequency)			
1. Bottled wine	13	13	13
2. Bulk wine	11	4	5
3. Other agricultural productions	3	11	10
4. Accommodation facilities	-	3	7
Innovations (last 3 years) (frequency)			
1. Production	-	1	1
2. Product range	1	1	1
3. Marketing	-	-	-

Strategies (last 3 years)

1. Disinvest/leave product/market	-	2	1
2. Market focusing	10	9	9
3. New product launch	2	5	6
4. New market penetration	2	8	6
5. Diversification	2	3	3
6. New brand acquisition	-	-	-
7. Brand extension	-	1	1
8. Niche	1	2	3

Partnerships

1. Financial institutions	1	-	3
2. Other producers	-	-	2
3. R&D institutes	4	5	8
4. Suppliers	-	-	3
5. Distributors	-	-	-
6. Universities	2	2	6
7. Public institutions	2	3	4

1st period wineries

1. *Ownership and organizational structure*: almost all of the entrepreneurs are local people (born in Tuscany). In 54% of cases, the winery has been belonging to the present family for multiple generations, meaning the capability of entrepreneurs to carry on a long lasting business activity. Owners are directly involved in the winery operations. They show a limited tension to delegate and perform personally most of the business functions. Owners do not hire their own agronomist or wine-maker but do personally or use independent consultants both for the agronomic and the oenological activities. The only managerial resources are hired to perform the sales and marketing activities. These functions are considered extremely critical for the business success: 6 wineries out of 13 have seen decreasing sales in the last three years and have declared they had started investing in sales and promotion activities in order to recover their loss of competitiveness. Winery 2 and 3 declared they had benefited by the introduction of external personnel working together with the family members.
2. *Business activities*: wineries show a limited range of business activities. They are mostly focused on wine production: grape growing and wine making are carried out at all facilities while bottling is sometimes outsourced to local service providers⁴. Most of them sell bulk in addition to bottled wine, meaning a limited capability to brand their entire production. Wine tasting is the only tourist activity they perform and olive oil (bulk) is the only agricultural product other than wine that they sell.
3. *Strategies and partnerships*: very few wineries show a dynamic strategic approach. Only 2 wineries have implemented a penetration strategy in new geographical markets, 2 have diversified their activity, adding hospitality (wine tasting) to the core business, and 2 have launched new products (wines made of new blending). Cooperation with research institutes is the most diffused type of partnership. The goal of such a collaborative behavior consists in clonal selection and experimentation of innovative vinification processes.

2nd period wineries

⁴ Trucks endowed with the appropriate equipments perform the bottling activity directly at the winery, maintaining multiple clients within the same territory.

1. *Ownership and organizational structure*: the presence of local people in the ownership of wineries is less relevant. Entrepreneurs coming from outside Tuscany declared they had been spurred by a mix of business opportunity-seeking and of desire to change their lifestyle. These people are less involved in the business activities showing a greater tension to delegate: they hire specialized marketing and sales managers as well as agronomists and wine-makers. Owners of Winery 15 and 22, both coming from outside the region, declared that they had leveraged on previously developed business relationships in order to find the right people to hire. None of these wineries engage independent consultants for the top management activities but again the most delegated functions refer to the sales and marketing and to the technical fields.
2. *Business activities*: the range of business activities is wider and differentiated even if quite strictly related to agriculture. In addition to wine, these firms produce other agricultural stuff such as olive oil, wheat, corn and sunflowers. In general, hospitality activity includes wine tasting, only 3 wineries provide accommodation facilities renting some bedrooms of the house to tourists, but the activity seems still to be marginal compared to wine production. Owner of winery 17 declared: “We restored the old barn (...) now we have three bedrooms and we host people coming from all over the world... it’s fun. But we don’t serve meals, if they want they can make their own breakfast, there is also a little kitchen in the barn”.
3. *Strategies and partnerships*: wineries show a more dynamic strategic approach even if the most diffused strategy is again the strengthening of the winery position in the served markets. The penetration in new market includes new geographical areas. The diversification strategies include tourist activities and direct selling. These wineries form a wider range of relationships with differentiated territorial organizations. R&D in both the agronomical and the oenological field is the most frequent type of cooperation, followed by relationships with public institutions (participation to local events) and with universities (faculty of agronomical sciences).

3rd period wineries

1. *Ownership and organizational structure*: almost a half of the interviewees come from outside Tuscany. These people declared that the motivation of their entrepreneurial venture in the region could be explained by their will to start a new business (next to the one they had already run) and to have a place to stay after retirement. These wineries show more decentralized control structures. The ownership is marginally involved in the business functions which are largely performed by external managers. According to the owner of Winery 31, “The marketing activities I perform concern mainly public relations at the estate, when importers, distributors or journalists come to visit and taste the wines. (...) Or during special events, dinners, shows, etc. where I meet important clients...”. In general, owners intervene in activities with a higher relational content such as interactions with relevant external interlocutors (banks, distributors, importers/exporters) or during special events (fair, trade shows, important tastings, etc.). Independent consultants are hired only for agronomic and oenological activities.
2. *Business activities*: These wineries show the widest range of business activities: in addition to wine and other agricultural productions, all of them provide wine tasting and provide one or more tourist services such as dining or accommodation facilities, organization of ceremonies, events and congresses at the estate. Many of them declared that they rely less on cellar-door even if they use it for brand building.
3. *Strategies and partnerships*: the strategic approach of these wineries is more dynamic (similar to that of 2nd period wineries). However, in this case, the diversification strategy

includes entering businesses that are less related to wine production, such as dining and organization of events. These wineries form multiple and differentiated partnerships with organizations located within and outside the region. 3 wineries declared they cooperate with a university located in the north of Italy in order to experiment innovative breeding systems and clonal selection, and 2 declared to implement a co-marketing strategy with two other producers located in Umbria⁵.

5. Discussions and conclusions

The findings of the research seem to confirm the existence of different kinds of entrepreneurial models coexisting within the regional wine business. The adopted categorization scheme based on the origins of wineries seems to point out some differences between firms in terms of ownership and organizational structure, as well as business dynamicity (Zanni ed., 2004; Zanni-Mattiacci-Nosi, in press; Vallini, 1990; Zanni 1995).

Although all investigated wineries show some common traits related to the adopted juridical form and the limited tension to innovate, as well as the predominance of market focusing strategies, some characteristics seem to discriminate wineries on the basis of their year of foundation/acquisition.

- *Ownership and organizational structure*: while owners of 1st period wineries are all local people, in the 2nd and 3rd group the proportion of non-local (Italian or foreign) entrepreneurs increases. In the first case, the owners do not seem to have fully surpassed the familiar dimension of the business, both at an organizational and at a cultural level, showing centralized control structures related to a limited tension to delegate. In the second group and, progressively in the third, the owners are decreasingly involved in the business activities and tend to hire external managers or independent consultants to exploit professional competencies. Owners of these enterprises seem to exploit the managerial/entrepreneurial capabilities developed in their previous entrepreneurial ventures and transfer them into the new operative environment, turning to external resources in order to acquire the lacking know-how and competencies.
- *Business activities*: being mostly focused on wine production, 1st period wineries show a quite narrow range of business activities. Differently, wineries founded or acquired in the 2nd and the 3rd period perform a higher number of activities related both to the agricultural production and to the tourism business. These entrepreneurs seem to be able to manage a greater business complexity and to seek business opportunities also relatively related to the main activity.
- *Strategies and partnerships*: although the most diffused strategy is the consolidation of the winery position within the served market in each of the three groups, 1st period wineries seem to implement a more limited range of less risky strategies (opportunities are pursued in businesses highly related to the core activity). Differently, 2nd and 3rd period wineries show more complex and articulated strategic behavior: these enterprises perform a higher number of development paths entering businesses that are relatively related to the core activity. In addition, these wineries seem to be able to activate a wider range of relationships with both local and non-local actors in order to improve the efficiency and the effectiveness of their activities. While in the first group strategic partnerships seem to be performed in order to fulfill a gap of mainly technical competences (agronomic and oenological areas), in the second and third group, partnerships are also performed in the marketing and commercialization areas.

Generalizing, we can say that 1st period wineries seem to be more similar to the “traditional entrepreneurial model” of the conceptual framework presented in § 2. The management of the

⁵ Another Italian region located in the central part of the country.

business is largely performed by the family owners who show a limited tension to delegate and keep the control of activities in their hands. Despite the possible lack of managerial competences, they do not seem willing or able to form strategic alliances with external organizations in order to improve the market approach. This is mirrored in the limited horizon of their business activities and a more rigid market approach.

2nd and 3rd period wineries show more differentiated ownerships in terms of entrepreneurs' provenance and therefore culture. They seem to be less involved in the winery operations, delegating relevant business functions to external managers, but willing to maintain control over the relational activities. They are more inclined to open to external interlocutors through the forming of strategic partnership that include both the professional and technical activities. This reflects into a wider strategic horizon and a more dynamic market approach typical of the “exogenous entrepreneurial model” identified in the proposed conceptual framework.

Even if it was not considered in this paper, we would suggest that the coexistence of these entrepreneurial models has contributed to the development of the Tuscan wine business and to its current configuration. The presence of new entrepreneurship, endowed with a new business culture and approach, has enriched the regional system of renewed competencies and resources ending up with revitalizing the local wine business. Our current researches aim at finding how these competences and resources circulate within the territorial system and the way they are internalized by local wineries.

At a theoretical level, the research tries to address the present deficit in the Italian literature mainly focused on the investigation of different entrepreneurial models coexisting within systems of industrial kind (Varaldo-Ferrucci, 1997; Bursi *et al.*, 1997; Zagnoli, 2001; Minoja, 2002). In addition, it seems to confirm that, also within rural systems, the dynamicity of enterprises seem to be linked to their ability to activate a wider range of relationships with other internal and external organizations (Albertini-Pilotti, 1996; Boari-Lipparini, 1999). Furthermore, the findings support the assertion that the origins of firms may influence their structure and their business dynamicity therefore their capability to manage the business complexity (Brugnoli 1990; Viesti, 2000; Minoja, 2002).

At a practical level, the study evidences that the coexistence of different enterprises within the same wine system contributes to increase the complexity of the local environment and could require the establishment of adequate governance systems. In particular, the investigation of territorial systems and single enterprises may evidence the existence of weaker organizations unable to manage the current competitive challenges due to the adoption of simple entrepreneurial formulas and reduced strategic horizons. Systematic surveys of this kind could help local institutions to address their interventions and provide appropriate supporting programs.

In addition, it seems that at the present time the development path followed by the Tuscan wine business in the last 46 years is repeating itself in the southern regions of the country such as Campania and Apulia. The success of few entrepreneurs has given rise to imitation processes spurring other investors to start new ventures, but they seem to show already some weaknesses facing the current dynamic competitive environment. The proposed framework of analysis could be helpful to investigate these emerging realities and to identify the possible lacks at the entrepreneurial level of the weaker organizations. The findings of systematic surveys could facilitate addressing the institutional measures and prevent from possible incumbent crisis.

The findings of this research should be interpreted as a tentative theory that requires further investigation. Future quantitative research, based on statistically significant samples, is required to enable the generalization of findings. Since the scope of the study was circumscribed to the Tuscan region, further research is suggested that enlarges the

investigated areas both within and outside Italy to ascertain possible differences between wineries and wine systems of dissimilar territories.

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