



6th AWBR International Conference

9 – 10 June 2011

Bordeaux Management School – BEM – France

Understanding Institutional Landscapes: A Comparative International Study of Two Wine Regions

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Abstract

Purpose*:* To develop a theoretical framework to understand the institutional landscape of the wine industry and its impact on the strategies and development of wine businesses in both the *Old World* and the *New World*. We aim to contribute to understanding the links between institutions and the strategic dynamics and performance of firms by identifying the impact of both the narrow view, of conformity and mimetic behaviour among firms in a region, and the broader strategic context.

Design/methodology/approach*:* We use a comparative approach to apply institutional theory in an international study of wine business firms in two locations, the Cahors in France and the Hawke's Bay in New Zealand.

Findings*:* We compare and contrast two wine regions, integrating the institutional context, specifically the role of domestic institutions, with strategic responses, such as sustainability, to common international institutions. We identify a convergence of approaches, with some French companies adopting more consumer marketing and branding approaches and some New Zealand companies adopting *AOC* style designations.

Practical implications*:* A wider analysis of the global industry and its institutional context will enable firms to understand the basis for developing change strategies in order to increase the international competiveness of their industries.

Key words: Institutions, comparative case studies, France, Cahors, New Zealand, Hawke's Bay

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UNDERSTANDING INSTITUTIONAL LANDSCAPES: A COMPARATIVE INTERNATIONAL STUDY OF TWO WINE REGIONS

1. INTRODUCTION

This paper aims to develop a theoretical framework to understand the institutional landscape, which is primarily one of change, in the global wine industry. The concept of institutional landscape integrates the physical and the socio-economic contexts, the outcomes of which are the business models and interactions observed in the strategies of wine companies. It is not merely the institutional context or simply business interactions which influence the strategic behaviour of firms – it is both. Our international comparative analysis draws on critical dimensions of institutional theory to compare and contrast the strategic approaches of two international wine regions, Cahors in France and Hawke's Bay in New Zealand. We have observed changes in the behaviour of wine business in the global context. Some French companies are adopting more *New World* practices such as branding, direct involvement in channels and more focus on understanding consumer preferences. Conversely, in New Zealand we see the adoption of traditionally *Old World* approaches to quasi-regulation such as defining wine-growing areas, rather like *Appellations*. We apply institutional theory to the context for wine business firms in our two locations in several ways: in drawing an international comparison, in considering firm responses to international institutions and in comparing the roles of local domestic institutions in response to global changes. Since these are complex issues, we argue that one theoretical lens is insufficient to clarify the forces and responses identified. Institutional Theory brings together economists, sociologists and historians, whose common interest is the impact of institutions on the behaviour of and coordination among economic actors (Veblen, 1899). We believe that inter-disciplinary perspectives on institutions bring further insights to bear on those from economics (North, 1971; North, 1990), from sociology (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Zucker, 1987), political science (Olsen, 2009) and business management (Dacin et al, 2007; Jackson & Deeg, 2008; Oliver, 1991). Our paper is organised as follows: first we identify some key concepts from Institutional Theory which frame our analysis. Next we describe our approach to our international comparative analysis. We then describe the two cases and our analysis draws conclusions on areas for further research.

2. INSTITUTIONAL THEORY

North defines institutions as: "formal rules or informal constraints and their modes of implementation that guide and regulate the behaviour of economic actors" (1991: 97). These rules are imposed on economic actors, yet are themselves a product of these actors' attitudes and strategies. North (1990) distinguishes between 'formal' institutions, being explicit and taking the form of constitutions, laws, regulations, codes, and 'informal' ones, often implicit and comprising social norms, conventions, personal habits, and organizational routines. For businesses, institutions are defined as:

> Regulatory structures, governmental agencies, laws, courts, professions...constituents that exert pressures and expectations [including] interest groups and public opinion. (Oliver, 1991: 147).

And:

> the causal impact of state, societal, and cultural pressures, as opposed to market forces and resource scarcity, on organizational behaviour, and [draws attention] to the effects of history, rules, and consensual understandings on organizational conformity to environmental constraints. (Oliver, 1991: 151).

Institutions govern the 'rules of the game' (North, 1990) and create limitations or enablers to the set of strategic choices open to firms (Oliver, 1991) at a number of levels: regulatory, behavioural or that of human understanding. Taking a wider perspective, institutions are key in global value chain analysis, which explains the functional integration and structural governance of dispersed economic activities in production networks (Sturgeon, 2009) 'for observed organizational spatial features...and [they] highlight the forces external to the chain that structure (enable or limit) what actors...do" (Sturgeon, 2009: 128). Firms are embedded in 'webs of networks' of other firms and social organisations including states, labour organisations and consumer groups (Dicken, 2008). These institutions set the fundamental political, legal and social rules that establish bases for production, exchange and distribution (Davis & North, 1970). Institutions comprise arrangements at national and international levels which thus shape a global industry.

At the organisational level, institutional theory focuses on conformity, reproduction and mimetic behaviour among organizations in an environment (DiMaggio & Powell, 1983) although a wider view adds more dimensions and explains wider potential variation in such behaviours (Jackson & Deeg, 2008), including strategic concepts of agency through power, control, influence, negotiation and interdependencies (Oliver, 1991). Institutional theory has developed from a restricted view of rules of behaviour, social norms and values, to an expanded consideration of the nature and variety of institutional processes and their impact on organisational structures and change (Oliver, 1991). Thus an institutional analysis - at least as applied in a specific context - contains an essential dualism, by which institutions shape individual or firm behaviours as they in turn influence the shape of new structures, reinforcing the need for a dynamic view of an evolving and contingent context rather than a static one. Organisational structures emerge from interactions and can, over time, influence systems of interaction (Morgeson & Hofmann, 1999). This interactive process draws individuals and organisational structures into a mutually defining web of relations, in what Olsen (2009) refers to as 'living institutions', that is, they are not rational machines or the product of intentional design, but rather organic social entities 'that evolve over time as an unplanned result of historical…processes' (Olsen, 2009). In terms of strategic responses to the influence of institutions, organisations respond to these influences in a variety of ways, including active agency, with 'different degrees of resistance, activeness and self-interested awareness' (Oliver, 1991: 149). Indeed Dacin, et al (2007) suggest that the institutional environment imposes: 'significant pressures on organizations to justify their strategic action and outputs' (2007: 171) which they do through market, relational, social, investment and alliance-based legitimacy, in a process which balances conflicting objectives and expectations. Taking a broad perspective in this paper, we see institutions as both 'bureaucratic' (Sturgeon, 2009) such as governments, agencies and NGOs, but also as the rules that govern society in norms, values and expectations, taking Sturgeon's view that:

> The rules set by institutions are derived, to a greater or lesser degree, by the beliefs, values, meanings and priorities embedded in the societies that create then, fund them, and staff them. (2009: 131).

Because international industries develop in diverse institutional contexts, it is unsurprising that firms respond domestically to common pressure in similar ways. What is more surprising, however, as Sturgeon points out, is that 'these specificities' continue to exert influences on even the most global firms. Moreover, a firm's institutional constituents are variable and changing (Dacin, et al., 2007) so there is a need to recognise the potential variation in responses and alternatives strategies for dealing with the institutional environment, which Oliver suggests include: acquiescence, compromise, avoidance, defiance and manipulation (1991: 152). Institutional theory has been critiqued as assuming passivity and excluding strategic agency, but these can be accommodated if assumptions about homogeneity and mimetic behaviour are relaxed (Oliver, 1991). Assumptions about conformity underlie beliefs that this is essential to organizational survival but conformity could just as easily threaten survival and resistance may be a more viable strategy.

Our ongoing research is interested in the diversity of responses to the institutional environment among two groups of similar organizations in the wine sector, since “organizations do not invariably conform to the rules, myths, or expectations of their institutional environments” (Oliver, 1991:175). The focus of the institutional approach has often been on national socio-economic systems, with the aim of understanding the characteristics of national forms of market economy and creating typologies (Albert, 1991). As well as analysing the performance of institutions in a particular national context, it can also be applied to a ‘mesoeconomic’ level that is, to a specific industry. This is particularly relevant for the study of the wine industry (Boyer, 1990, 2006; Marchesnay, 2002; Torres, 2004) as a sectoral perspective may also be cross-spatial and provide new elements to understand a broader conceptualisation of the landscape. Institutions, both domestic and international, play pivotal roles in the structuring and governance of global industries in the regulatory context, and new institutions or conventions of behaviour or regulation continuously emerge. Thus our underlying research question is: how do institutions enable and affect the governance of individual country-based value systems which integrate into the global wine value system?

3. TERROIRS AND THE INSTITUTIONS OF WINE

A particular institutional concept in the wine industry is that of *terroir*, which is central to the French wine industry where the region of origin of a wine is a specific asset, whose development has been the cornerstone of the industry's strategy on a national level. As highlighted by Calvet (2005:499), the geographical origin of wine has gained such a symbolic strength that even most standardised wines cannot help but mention it. However, the use of numerous terms in its characterization makes the concept relatively complex, referring to various notions, such as vineyard, land, and territory, according to different and often confusing meanings. The wine *terroir*, traditionally a homogeneous geographical area, can be defined according to a variety of concrete, tangible factors – such as soil, geology, geomorphology, hydrology, climatology and sunshine – that preceded human intervention and exist independently of it. Agents are not absent from the *terroir* but their role is limited to enabling the revelation of its virtues. Though precise, this definition lacks an operational nature, as the boundaries of a *terroir* are dependent on the degree of precision with which its homogeneity is analyzed. A detailed analysis can lead to the fragmentation of a given geographical area into a multitude of micro-plots, while a lesser degree of precision opens the door to disputes between *terroir* insiders and outsiders.

This traditional definition of the term *terroir* under-estimates the importance of human society interactions. We therefore call for a less restrictive definition, which reinstates human action as a component of the *terroir*. A *terroir* is indeed a homogeneous territory endowed with a very strong identity, characterized by a set of natural, cultural, historical and social resources (Rastoin & Vissac-Charles, 1999). Moreover, *terroirs* are not exogenous, but rather a structure whose components are less important than geographical resources built by economic players and their interactions: individual and collective skills, explicit or tacitly transmitted from generation to generation, building on enduring collective trust facilitating the exchange. Thus *terroir* is a territory within the meaning given to that term by Pecqueur (2000), "an abstract but geographically situated space of cooperation between actors that aims to generate specific resources and new solutions" (2000:15). As a territory it can also be analyzed as a ‘situated institutional setting’. It is no longer a simple bounded set resources, but a social and historical construct (Lévesque, 2008), a set of institutions embedded in a given geographical area that give it its identity. It is a system of actors connected by different types of proximity, namely geographical, organizational and institutional (Bouba-Olga *et al.*, 2008; Rallet & Torre, 2004).

Terroir can be used by firms for strategic purposes (Martin, 2004; Rastoin & Vissac-Charles, 1999) as it enables local players to develop "specific resources and therefore a competitive advantage" on the basis of a given territory's natural and cultural assets (historically inherited production methods, intrinsic characteristics of the territory, know-how), and protects them from competition (Corade & Delhomme, 2008). The terroir is also itself a critical resource in marketing terms (Charters, 2010). Building on Vadour's typology (2002) of definitions relating to: plant growing (nutriment, taste), territory (space, landscape), advertising (slogan, image), and identity (conscience, authenticity) (2002:119), Charters elaborates the physical, differentiating and marketing applications of terroir to four key dimensions: firstly, terroir as the distinctiveness of place, which links to the physical environment, the commercial marketing environment and the metaphysical identity. Yet the system is not completely closed and outsiders are likely to take advantage of territorial land rent by creating confusion with regards to the name and origins of products – see the use of designations "Champagne" or "Chablis" in the United States.

As a formal institution, the appellation of origin (*appellation d'origine contrôlée* – AOC[1]) is therefore the cornerstone of the system. In the words of the French denomination Institute (INAO), the appellation of origin of a wine is the country, region or locality, referring to the product and whose quality and characteristics are exclusively or essentially due to the geographical environment, including natural and human factors. It is a label, a set of formal rules, standards and regulations, whose purpose is to protect a locally embedded product from competition. The combination of geographical, organizational and institutional proximity drives the identification between the place, the company and the product. This forms a high barrier to entry that gives insiders a monopoly on the niches it creates, generating a "rent" situation, as the product can be differentiated, marketed and sold at a high price (Corade & Delhomme, 2008). The impact of the AOC is both "horizontal", as it plays the role of a territorial marker and a guarantee of the uniqueness of the product, and "vertical", as certification constraints reinforce the presumption of quality.

We now apply an institutional approach to a comparative analysis (Schneiberg & Clemens, 2006) of two wine regions, the Hawke's Bay in New Zealand and the Cahors in France.

4. METHOD

An international comparison is justified because: 'Institutions exist in distinct national configurations' (Jackson & Deeg, 2008:541) and comparative studies examine how these institutions interact to form national constellations with their own non-random types or patterns, logics, and sources of competitive advantage (Porter, 1990). Jackson & Deeg (2008) argue that a particular contribution of this 'comparative capitalism' approach is a focus on 'non-market forms of coordination' (2008:541), especially the influence of institutions on capabilities and governance structures. So rather than seeing institutions as variables that constrain business (the 'variable-based view'), they argue for a national comparative approach to understand cases of institutional diversity ('case-based comparisons of institutional configurations') and their impact on business, providing a more holistic view. They incorporate Whitley's conceptualisation (1999) of 'national business systems' to capture the degree and type of authoritative control of economic activities and the interaction of business social partners, and includes the internal dimensions of the firm. Whitley (1999) identifies six types of business system: fragmented, compartmentalized, industrial districts, highlycoordinated, collaborative and state organized. New Zealand would come under the fragmented type, as its economy is dominated by SMEs, and France is said to come under state organized (Jackson & Deeg, 2008:547).

Several important features of Jackson & Deeg's (2008) approach to institutions inform our analysis: institutions influence identity and the interests of economic actors and hence the development of firm resources and capabilities; they are interdependent and often complementary and their diversity enables comparative institutional advantage. However, change is path-dependent, slow and incremental as solutions to common problems are viewed through those same diverse institutions. Crucially, for our study:

> [Comparative Capitalism] scholars compare how firms in different countries adjust to similar pressures in order to explore to what extent institutional differences impact on strategy. (Jackson & Deeg, 2008:551).

We aim to identify the critical institutions in each of our cases, the nature of their locus of activity and how it impacts on behaviour, strategic dynamics and performance in the two wine regions. We draw implications for further study of this industry and other industries.

5. THE CASES

We now turn to two illustrative case studies (Siggelkow, 2007) to explore the changing dynamics of the institutional landscape for wine businesses in both the *Old World* and *New World*.

5.1. Cahors

Cahors vineyard (AOC area) currently represents about 4,300 ha of vines over a total geographical area of 21,700 ha, spread across 45 municipalities along the River Lot in South Western France. The estimated annual production of about 180,000 hl is carried out by around 430 producers, of which some 140 belong to the *Côtes d'Olt* cooperative winery in Parnac (25% of overall production)[2]. The vineyard is geographically homogeneous and its boundaries are clearly defined. It is located on two major types of soils, one on Kimmeridgian limestone, and one on other alluvial soils of the Lot river valley, including silicious terraced rows on its hillside (low, middle or high terraces). The Cahors AOC plays a major role in the institutional landscape: it is the only one in the vineyard and represents most of the local wine production. All of the AOC is composed of red wine. The dominant varietal is Malbec, which represents 80% of the vines over the AOC, as well as 11% of the global area planted with Malbec. The AOC is one of the youngest in France: it was enacted in 1971; the adoption decree signed by the President with G. Pompidou himself known for being a supporter of Cahors wine. Its specifications were at that time considered to be among the most rigorous in France (Olivier 2009): they gave a central place to Malbec, the yields were limited to a relatively low ceiling (50hl/ha), while a minimum natural alcohol contents (11, 5% vol.) was set.

The vineyard is known for being one of the oldest in Europe, having been planted by the Romans back in 50 BC. It has also gone through many ups and downs. In 1152, the marriage between Alienor of Aquitaine and Henri Plantagenet, the future king of England, encouraged the development of winegrowing in Southwest France. This first period of prosperity came to an end with the One Hundred Years War in 1373. Production resumed in the eighteenth century – Cahors was at that time very popular in Russia – and expanded until the second half of the nineteenth century. It was then deeply affected by phylloxera in 1876, resulting in a sharp decrease in production. It only took off again in the early twentieth century, yet to a level far below that of the previous period, both in quantitative and qualitative terms. In 1956, frosts were a further blow to the production that was further reduced by 40%.

Still, measures were taken at that time that would eventually revive the vineyard. The *Côtes d'Olt* cooperative winery was established in 1947 by 146 local growers who wished to revitalize the local traditional Malbec grape variety. In the 1960s, it decided at the initiative of its president to focus on quality production by reducing yields and selecting grape varieties that would ensure the typicality of the wine. The cooperative winery also supported the development of bottle sales (more profitable than that of bulk wine) which thus counterbalanced the efforts made in terms of investment (Tulet & Velasco-Grasciet, 2003). These strategic choices drove the redeployment of the vineyard both in quality and quantity and gave the cooperative winery a key role in the process. This strategy was eventually institutionalized in 1971, when the Cahors AOC was adopted. Soon, its reputation became national, even international, and production increased accordingly. A new generation of local producers emerged, while outsiders started investing in the vineyard: its area, 440 ha when the AOC was established, had been multiplied by ten by 2001.

This positive development nonetheless overshadowed patent weaknesses of the vineyard, which again fell into crisis at the beginning of the Twenty-First century. Fractures and confrontational lines among various players had proliferated since the 1960s, influencing its management and performance. Winemakers are for instance divided into several subgroups. There are small independent growers, whose activity is marked by a traditional polyvalent culture. Their exploitations are generally small and often located in lowest quality *terroirs*. A second subgroup is composed of specialized and often famous winemakers, owning the best land and wishing to improve their wines. A second line divides independent growers and cooperators, the latter being suspected of promoting price competition at the expense of quality production. The cooperative winery, long a driving force of quality improvement, declined gradually and turned away from its initial strategy to promote mass production and of sales of low-end products sold to the retail sector, including "hard discounters". The experience of the low price low quality ‘Carte noire’ retail brand was the most prominent emblem of such a situation, contributing to undermine the image of the AOC.

The merchant group has also undergone significant changes since the last few years. Local merchants often used to be growers as well, whose priority was to secure an outlet for their own production; they were gradually supplanted by foreign ones with greater market power, whose primary goal was to expand and diversify supply. This resulted in pressure on prices weighing on the entire vineyard. Some growers sought to market their wines themselves, but were not able to become key local players (Oliver, 2009).

Theses lines of confrontation led to the rejection of an AOC classification project in December 2002, for fear that small producers would lose the AOC label. A central problem is the lack of hierarchy within the AOC, which prevents it from fulfilling its objectives. It makes no distinction between the different local *terroirs* or between various wine quality levels. The result is uncertainty for consumers with regards to both the product typicality and quality, as only the origin is guaranteed by the AOC. This type of situation also tends to foster "free rider" attitudes and ultimately damages the reputation of the entire vineyard. Yet, the absence of hierarchy is supported by numerous small producers that benefit from AOC membership and do not wish their production to be "declassified". Consequently the only option for those producers developing a high-quality high-price strategy is to emphasize their own reputation at the expense of the collective image conveyed by the AOC, making the whole structure even more difficult to understand. A few of them have for instance begun to produce organic wine in order to differentiate from their local competitors. .

Different powers currently contribute to the reconfiguration of the vineyard and the establishment of a genuine territory supporting a strong local identity. The sense of urgency of the situation has prevailed over the reluctance of most players and a new attempt at reform has been underway since 2008. It is based on a "Plan Malbec" driven by the local professional association (Union interprofessionnelle des Vins de Cahors, UIVC) aiming to "reposition Cahors wine as part of a wider range of Malbec wine in order to penetrate new markets, particularly export ones", taking advantage of Argentinean Malbec's popularity in the United States. Rather than promote the Cahors AOC label alone, the plan aims to combine it to the promotion of the local Malbec varietal, that has become a vehicle for a new definition of the area's identity, under the name of Cahors-Malbec. Several events were organized such as the 1st and 2nd International Malbec Days in 2007 and 2008, or the development of partnership with Argentinean producers, such as the Lujan de Cuyo community in Argentina.

The UIVC also proposed to winegrowers and merchants a new export-oriented marketing segmentation ('Cahors', 'Cahors Malbec', 'Cahors Black Wine'), with the aim of supporting global quality improvement and perception without penalizing smaller producers (see table in Appendix). This reform coincides with a renewal of the social fabric, giving an increasing role to younger producers, who are often outsiders, which could contribute to the renewal and quality increase of supply. As a result, the vineyard's economic fundamentals seem to be gradually improving while winegrowers and merchants are once again working together with the aim of developing win-win strategies (see Table 1 in Appendix).

5.2. Hawke's Bay

Hawke's Bay, in the eastern North Island, is New Zealand's oldest (production dates back to 1851) and second largest wine growing region, with 4,947 hectares, producing 38,860 tonnes (after Marlborough, with 19,295 hectares producing 182,658 tonnes) in 2010 (NZW, 2010). Many grape varieties have been grown in the region, and since the development of the industry in the modern era (from the mid-1980s) it has been a location for production of many different varietals, though especially Chardonnay and full-bodied red blends. It is now the largest premium red wine producing region in the country with over 80% of the national vintage for both Cabernet Merlot and Syrah (nzwine.com). Chardonnay and Cabernet Merlot varieties make up 50% of the total annual vintage, of which approximately 50% is white wine and 50% red wine. According to NZ Winegrowers, the region produces red wines which combine *New World* fruit flavours with *Old World* structure (nzwine.com). Located at 39.4° South (the same as Madrid in the Northern Hemisphere), and at an average 30 metres above sea level, Hawke's Bay has one of New Zealand's hottest and sunniest maritime climates. Free-draining soil types with naturally low fertility, prevailing hot dry north westerly winds, low rainfall and a long growing season, provide a range of vineyard sites suitable for a diversity of varieties. Over 25 different soil types make up the wine-producing areas of Hawke's Bay. It has a number of sub-regions which have unique conditions for grape growing and winemaking, with 7 distinct areas identified, ranging from Te Mata, Havelock North, with hill sites rich in calcium and river flats with stoney soils to Taradale, Meeanee, Brookfields, which is very close to the coast (wineonline.co.nz).

Wine production in Hawke's Bay is just over a century old. After the first planting of grape vines in New Zealand in 1819, and the first commercial wine production in 1840, the Marist religious order planted vines in several areas and finally settled in Hawke's Bay in 1865. The Mission vineyard at Taradale in the Hawke's Bay, remains under Marist management today. In 1866 Joseph Soler planted grapes in Wanganui, with his wine receiving awards in Australia and London. His nephew, Joseph Vidal established in 1905 what was then the largest vineyard in Hawkes Bay, Vidal, which is now part of Villa Maria (Rankine, 1995). In the 1970s new areas such as Gisborne were added to Hawke's Bay and

Henderson, West Auckland, followed by expansion to Marlborough and Canterbury. 1975 saw the formation of the Wine Institute of New Zealand shortly followed by the New Zealand Grape Growers Council. Much of the New Zealand economy, including the wine industry, internationalised rapidly from the 1980s from a small domestic base. Mikic (1998) argues that the industry's success has been based on trade liberalisation, whereby it moved from producing cheap low quality wines to quality production, and from import substitution to export orientation. This transformation was in response to the availability of imported wines, arising from the tariffication of a complex wine import system, and the phasing out of tariff quotas and their replacement with *ad valorem* duties (5% in 2000), and to the Grapevine Extraction Scheme of 1986, which encouraged the planting of higher quality vines (principally reducing Müller Thurgau and increasing Chardonnay and Sauvignon Blanc plantings) (Mikic, 1998).

Hawke's Bay was first planted commercially in 1981, with Merlot, Cabernet Sauvignon and Chardonnay. Prior to 1991, only 20ha of the region was planted in grapes – growing to over 200ha by 1997, with a further 400ha planted since 1998. 80% of the land is planted in red grape varieties – 44% Merlot, 14% Cabernet Sauvignon, 7% Syrah, 6% Malbec, 5% Cabernet Franc and very small pockets of Pinot Noir, Pinotage, Petit Verdot, Gamay Noir, Sangiovese, Montepulciano and Tempranillo. The remaining 20% is planted in Chardonnay, Sauvignon Blanc and small pockets of aromatics, Arneis, Gewurztraminer, Pinot Gris, Riesling and Viognier. The first Syrah was planted in 1993 and is being increasingly planted, indeed Pernod Ricard's winemaker was recently quoted as believing that it may even become New Zealand's third most important grape after Sauvignon Blanc and Pinot Noir (Shaw, 2011).

The wider institutional landscape of the Hawke's Bay may be read in several ways. All wine producers and grape growers are members of the national peak industry organisation, New Zealand Winegrowers (NZW), which brings together 1000 grower members and around 700 winery members. NZW was founded in 2002 by the amalgamation of the Grape Growers Council and the NZ Wine Institute. Governed by a Board of 12 Directors, 7 from the Wine Institute and 5 from the Grape Growers Council, the body is funded by levies on grape and wine sales. New Zealand has 10 wine regions, with NZW headquartered in Auckland. Whilst it is a relatively small country, it has a very strong sense of regional identity and local wine organisations are extremely salient. With over 80 wineries and 170 wine grape growers in Hawke's Bay, it has the highest percentage of Sustainable Winegrowing NZ (SWNZ) accredited wineries in the country. Of the 172 vineyards in the region, 70% are accredited to this independently audited sustainability programme, and these numbers are expected to increase (nzwine.com).

There are two significant institutions in the Hawke's Bay wine region. In 1979, eight Hawke's Bay wineries established the first regional vintner's group, Hawke's Bay Vintners, which became what is now Hawke's Bay Winegrowers Inc. The second is the Gimblett Gravels, a *terroir* geographical winemaking designation and brand owned by an association of wineries and winegrowers in the Hawke's Bay region. Formed in 2001, the Gimblett Gravels Winegrowers Association is a fully-incorporated registered body. It currently has 25 winery members with a further 4 grower members (gimblettgravels.com, 2011). The Gimblett Gravels refers to itself as a *Wine Growing District* with a *Designation* and sets clear rules about its membership and use. To market a wine as being from the Gimblett Gravels Winegrowing District a producer must be a member of the Association and agree to use the branding platform of the Gimblett Gravels brand. They must prove that the grapes come from a vineyard with 95% of the soils defined in the designation of the district (classified as recent soils as described in the “Soil Map of the Heretaunga Plains”) and that the wine has at least 95% of its grapes sourced from the Gimblett Gravels Winegrowing District. These requirements are subject to random audit (gimblettgravels.com, 2011).

Members who break these rules can have all their rights of membership and brand use revoked indefinitely. No other controls over viticultural or winemaking methods are prescribed and the industry claims that internal peer pressure and a natural competitive spirit, along with the appropriate legislative controls, ensure basic quality standards are met and indeed advanced. To be a member one must own a vineyard in the District, have 95% of their vineyard soils Admission is by election at a general meeting of the Society and a clear majority of votes cast by members present and voting at the meeting. The Gimblett Gravels Winegrowers Association was formed to collectively promote this special area to the world and explicitly states on its website that:

> Gimblett Gravels combines the French concept of terroir with modern day thinking to define, protect and market wine. In what is believed to be a first for winegrowers in the New World - wine growing countries outside Europe - Gimblett Gravels is basing the ultimate designation of their district according to a tightly specified soil type. (http://www.gimblettgravels.com).

6. DISCUSSION

We now use the dimensions of physical, commercial, metaphysical and how they come together in the distinctiveness of place as a source of competitive advantage to analyse the institutional landscape for the two wine regions. On one side, French wine producers, together with Italy, Germany and Spain, defined the modern wine business landscape up until the mid twentieth century. France’s traditional competitive advantage has been based on the quality indicators of the physical AOC classification system and it well-established trading infrastructure. This, combined with culture and tradition, experience and skills, has built the reputation and image of its wines. The French institutional landscape is still strongly dominated by government and regulation, lack of scale, fragmentation in the value chain, elitism and perhaps inertia to change (Torrès, 2004; d'Iribarne, 2006). These cannot be isolated from a broader institutional context, whose distinctive local cultural features, such as low levels of trust between non-kin[3], have been identified as an important background social institution seen at most levels of French economic and social life (Cahuc & Alban, 2007), leading simultaneously to individualism, corporatism and State interventionism. Distrust may for instance explain a broadly felt rejection of competition as a principle of market organisation and a strong demand for protection, generating the development of a bureaucratic and corporatist bodies as well as a tight and often restrictive legislative framework. Consequently, the government tends to play a key part in most aspects of economic and social life, answering these French needs for protection and equal treatment, while markets are generally highly regulated.

A second salient institution, that can be connected to the first one, is a high sense of each individual's status and hierarchic situation (d'Iribarne, 1989), which in turn favours stability and rent-seeking behaviours at the expense of competition, change and innovation. These features are especially present in an industry that is closely connected to agriculture and therefore exhibits features of pre-industrial economic organisation. Torrès (2004) points out the specific nature of the traditional French entrepreneur (cf also Marchesnay, 2002), also defined as a *corporatiste* entrepreneur, as a manager of a small rural company limited to traditional activities, cultivating a love of his/her profession, and highly tradition-oriented. The *corporatiste* entrepreneur combines individualism with the sense of belonging to a community (also called *corporation*), whose interests have to be preserved. For Torrès, the entrepreneurial purpose is not about risk-taking, innovation or change, but about defending interests and avoiding threats, seeking recognition from one's peers. The fear of failure, that could mean a loss of status, is particularly present and determines the behaviour of the whole corporation.

On the other side, New Zealand, with other *New World* producers such as Australia, the US and Chile, changed the rules of the game in strategic terms by innovating in grape growing, winemaking, marketing, branding, labeling, packaging and distribution. The institutional landscape – physical, commercial and metaphysical - of *New World* production is simplified, lightly-regulated, involves many new entrants (organizational and individual), economies of scale (at least in Australia and the US) and strategic integration. The case of Hawke's Bay shows a strong focus on mimetic behaviour in collective, regionally branded responses to competition, and change and innovation in firm level business processes and local/regional institutions.

Among the common factors we have identified in our two wine regions are: both are important but younger (in the case of Hawke's Bay), smaller regions, in the shadow of larger, more renowned neighbours, Marlborough in the case of Hawke's Bay and Bordeaux in the case of Cahors. Both have gone through adaptations, specifically moving up to more quality production. In the case of Hawke's Bay, this is being done through specialisation on premium red varieties and strong adoption of Sustainable Winegrowing to support differentiation, both from other New Zealand producers and in international consumer markets. Both of our case regions are dominated by red wines but with a major difference: one has a single product – specialisation with Malbec, the other with multiple varietals, though with the beginnings of specialisation.

7. CONCLUSIONS

Cross-country comparative studies of institutions, business processes and organizational behaviour provide useful insights for international business (Cantwell & Brannen, 2010). This paper has begun to build a theoretical understanding of the influences of the institutional landscape on an industry. By drawing an international comparison we find that domestic regional industry institutions play a significant role, in the context of local collective action and agency responses, to seek to secure market power by building location specific brands. What is interesting, and to be explored in further research, is that the innovative *New World* case region is adopting an *Old World* approach, in defining what looks like an AOC, and the *Old World* case region is adopting more *New World* marketing and branding techniques. Further research to investigate the areas of convergence and ongoing differences between 'Old' and 'New' is warranted.

Notes

1. Or "Protected Designation of Origin" (PDO) under European Union law.
2. All data provided by the *Union interprofessionnelle des Vins de Cahors*.
3. See for instance Fukuyama (1995), *Trust: The Social Virtues and the Creation of Prosperity*, Free Press paperbacks, New York

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APPENDIX

Table 1: Cahors: a new marketing segmentation

Market segment	Labelling	Specifications	Potential markets
Icon	Cahors Grand Cru	Specific regulation	French and international
Ultra Premium	Cahors Black Wine	Tightened AOC specifications	French and international
Super Premium	Cahors-Malbec	AOC specifications + 85% Malbec	International
Premium	Cahors	AOC specifications	French and international
Popular Premium	Cahors	AOC specifications	French