

Family transmission versus Chinese investments in Bordeaux wine sector: the analysis of innovations and traditions within the ownership change

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◦ ***Purpose:*** *The wine sector is known for its strong family traditions therefore the ownership changes, either transmission from one generation to another or selling a property to foreign investors might strongly affect the development of a company bringing along renovations, modernizations, transformations, and even radical innovations. This article focuses on comparing innovation strategies of the two kinds of ownership changes in Bordeaux wine region: business transmission within a family and company acquisition by a foreign investor. We look more carefully at particular cases of new Chinese owners, and attempt to analyse an impact of the ownership change on the innovation policy.*

◦ ***Design:*** *This research is grounded on the "3P" innovation conceptual model (Product innovation, Process innovation and Position innovation). The methodology employs case study approach supported by mapping technique. The company reports, and media materials as well as the interviews with wine company owners and managers of French and Chinese origin in Bordeaux region form the basis for the performed analysis.*

◦ ***Findings:*** *The two kinds of ownership employ innovation differently in product, process, and marketing levels. They diverge even more in organization innovation and investments strategies. However, in both case Position innovation remains the cornerstone of the company development. Investments and a straightforward access to a new market become the two bifurcation points of the family transmission and the Chinese acquisition strategies.*

◦ ***Practical implications:***

The effects of ownership change vary in terms of innovation depending on the strategy elaborated by the new owner. To be successful in responding necessary market changes, a new owner needs to focus on the positioning of the renewed company, and craftily balance traditions and innovations in wine sector.

Key words: innovation, tradition, wine, strategy, ownership change, generation to generation, Chinese investors

1. INTRODUCTION

The ownership changes, either transmission from one generation (GTG = generation to generation) to another or selling the property to foreign investors strongly affect the development of small and medium size enterprises. This renewal may result in a profound transformation of the company, introducing radical innovations, developing new services and accessing new markets, renovating the company (Bessant, 2003). Nevertheless it remains important to maintain a link with the past and the traditions, which are embedded in the culture, the history and even the land itself (Ocasio et Joseph, 2005). This is particularly true for such a specific sector as wine production and commercialization.

The wine sector is known for its strong family traditions - the wineries are frequently transmitted from generation to generations, and the generations are keen on keeping the family imprint (Bajard, 2011). Wine business by definition is attached to the land, the history of the land and therefore gains to a great extent in experience and knowledge in the context of family traditions

Bordeaux wine sector, analysed in our study, witnesses its strong attachment to the family business traditions as it is developed through the centuries as a traditional network of small family businesses in wine production and wine commercialisation. Surprisingly the evolution of the landscape of the World Wine market during the two last decennia have brought changes into this long-established Bordeaux wine scene. Over the last decade New World wines are rapidly developing and can now penetrate European and overseas markets more easily, and. Bordeaux wines met difficulties on their traditional markets in UK, Canada or Belgium. At the same time Asian market development (in particular with success in Hong-Kong, China, Japan) opens strong opportunities for Bordeaux wines and this part of the world, where wine consumption is growing. Due to these new circumstances, certain sedition trends become evident through the ownership changes of Bordeaux wine properties. There is still an important number of wineries which are transmitted to a new generation, nevertheless a number of wine family business are sold to corporations or groups (e.g. AXA insurance company, LVMH group) or to foreign investors either for a better development or because of eventual bankruptcy.

Out of more than 9000 chateaux in Bordeaux (CIVB, 2011), about 100 chateaux are invested by foreign investors (SAFER, 2010). Chinese investors, who started investing in wine properties only since 2008, however, the rate of investment is very high. By February of 2012, between more than thirty wine properties already belong to Chinese investors (César, 2011; Niedercorn, 2012).

Bordeaux wine sector has known the British, Spanish, American or Russian periods in its history. The foreign investors, except Chinese investors, were almost always adopting the Bordeaux model of producing and exporting to multiple markets (Lodge, 2011). The Chinese investors, however, change product, process and company position and bring various innovations

We investigate what types of innovations taken place with the ownership change in wine sector. The research question we pose is the following one: Are there any differences on the innovation strategy between the two kinds of ownership

transmission (Generation to Generation Vs Transmit to Chinese investors)? Where are the differences and where are the similarities?

2. LITERATURE REVIEW

2.1: Ownership change

Following Brown and Medoff (1988), two radically different types of ownership change exist: the companies owners are replaced by the new investors from outside the company, and the owners/ managers come from inside the company (Carliner, 1988). These two kinds of ownership change lead to the changes in the ownership structures which furthermore, influence the innovation strategy choices.

Lacetera (2001) suggests that the ownership structure influences innovation as it affects investment decisions, the type of investment and the distribution of the returns within the firm.

Other researchers also suggest that the ownership change GTG, pursue more frequently altruistic objectives, for instance, ensuring a workplace for family members, is often more important than profitability or growth (Westhead and Howorth, 2006). However, foreign investors may have an incentive to provide firms with access to their contractual networks and resources (Filatotchev et al., 2001; Meyer, 1998; Pohl et al., 1997), which may positively affect innovation activities and favour the long-term investment projects (Bradley et al., 1984).

2.2: Corporate governance

A considerable number of studies are devoted to corporate governance in the last decade (Demirag et al., 2000; Keasey et al., 2005). The focus has been given to large corporations (Hart, 1995; Gabrielsson and Huse, 2004), though the issues of governance changes also exist in privately-held SMEs (Uhlener et al., 2007).

Montemerlo (2005) suggests that different owners affect corporate governance in SMEs at three levels: at the level of **strategy**, to establish an entrepreneurial vision; at the **financial** level, to provide patient risk capital; at the **organizational** level, to choose people to play key roles. These levels are switched synchronize with the ownership change.

Moreover, Lazonick and O'Sullivan (2000) point out that, a system of corporate governance supports innovation by generating three conditions – financial commitment, organizational integration, and strategic control. Corporate governance provides the institutional support for 1) the commitment of resources to irreversible investments with uncertain returns; 2) the integration of human and physical resources into an organizational process to develop and utilize technology; and 3) whether the leader have the incentives and abilities to allocate resources to innovative investments, controls over strategic decision-making. We therefore consider the financial, organizational and strategic changes as the service of corporate governance during the analysis of innovation activities.

2.3 Innovation versus traditions

2.3.1 Traditions

The development of business comprises and maintains a link with the past. The traditions are considered as an attachment and are embedded in culture, history and local territory (Ferrucci et al, 2008; Flor and Oltra, 2004). The tradition implies a dependency on long-established values and a strong attachment to the past and is allied to meaning, knowledge, talents and values. As family business depends upon the transmission of knowledge, traditions and ethics, it was essential that the old generations dedicate time and efforts on educating and training younger generations to prepare them for the taking over the business in future. This is particularly valuable for a wine sector.

Wine represents is a unique product which combines land, technology and culture, edges history, art and terre. Traditions bring special value in family business in wine sector, that is why wine producing companies are keen on preserving knowledge and hold on traditions. As an example, we could refer to the AOC system which imposes regulations on the types of grapes, and/or of the number of branches, plant density, production quantity, etc. It is based on the years of experience and on the long-established traditions in the wine regions. The objective is to keep the image of the company and make the good quality wine.

According to the discussion of the association of PFV (Premum Familiae Vini), which includes the world's leading wine family business of Bordeaux (e.g. Château Mouton Rothschild) keeping traditions in wine sector mainly refer to the following activities: exchanging viticulture/oenological information and promoting traditional methods to underpin the wine quality and the respect for terror; promoting and defending the ethical values.

2.3.2 Innovation

Joseph Schumpeter is traditionally considered as the first economist who drew the attention to innovations. He argued that there are five types of innovation: Product, Process, Marketing, Input and Organization (Schumpeter, 1934, P.66). The two last categories which included money and knowledge are viewed now as parts of the Corporate Governance which will support the innovation activities as mentioned before and we will not put under the innovation model.

The most recent development of the analysis of innovations belongs to Tidd and Bessant (2009) who have developed 4P model of innovation: Product, Process, and Position and Paradigm innovation. This model extends the Marketing innovation to Position innovation, mentions not only Marketing innovation but also Market innovation. The Paradigm innovation concerns the revolutionary change in the way something is done in the organization, which is mainly for big cooperative or industry, this is not the same case in our research.

Innovation assumes and implies a long-term vision, and many SMEs seem to fail to innovate, being imprisoned by short-term operational problems and resource constraints (Bessant, 2003; Tidd et al., 2005).

There have been several studies carried out on innovations in SMEs in wine sector; Wood et al. (2005) has found that most wine producers in South African have significantly improved quality and product ranges while marketing remains an issue for most of the producers. Aylward et al (2006) came up with similar results in

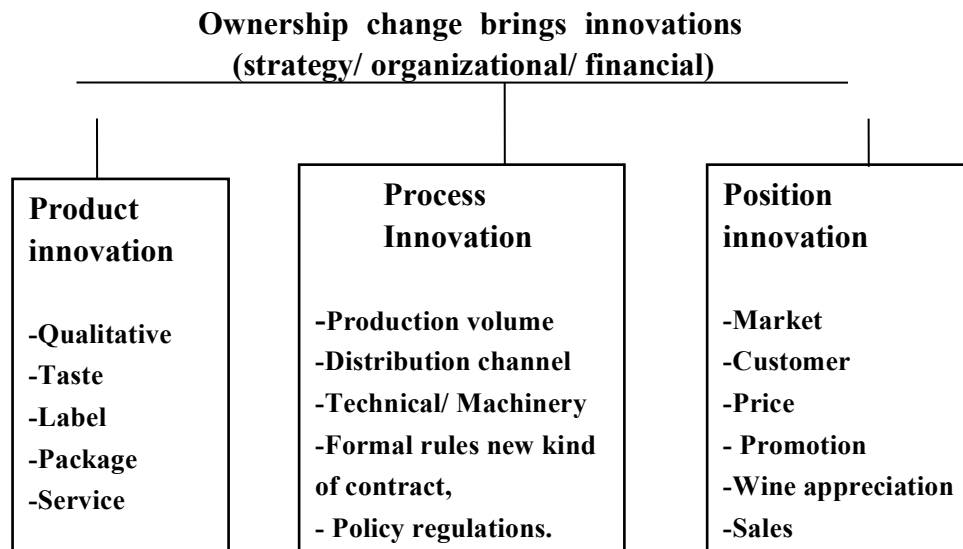
Australian wine industry. His results show that 54% of the wine producers focus on product innovation, 22% on process innovation, 34% on marketing innovation, 32% on price innovation and 40% on branding innovation. It is important to note that the countries analysed in both research works belong to the new world wine market.

Relying on the literature and the described models, we have tried to adapt them to the case of wine sector and suggest a model which describes adequately a situation of the SMEs ownership change. As we consider the ownership change, whether we talk about family shareholders or about foreign investors, governance change and organization innovations inevitably take place in this situation. Following Montemerlo (2005), the ownership changes affects corporate governance at three levels: strategy level, financial level and organizational level. These three levels undergo a thorough assessment under the ownership change; therefore our consideration of innovations goes beyond these inevitable organizational and financial changes, which are evident and expected.

We focus then more on Product, Process and Position innovations under the ownership change. They are less apparent and are not compulsory. Referring to the categories suggested by Aylward et al (2006), we combine marketing, price and branding in the Position innovation.

Therefore we suggest a conceptual model of innovations as below:

Figure 1: Conceptual model of Innovations within the ownership changes



In this model, we put Position innovation (following the 4P models), rather than Market innovation (following Schumpeter), because the Position innovation includes Market innovation and Marketing innovation; it is more rich and consistent with the specific wine sector.

We use the conceptual model introduced above to compare the influences of differences kinds of ownership change on innovations in the case of transmission from GTG, and in the case of Chinese investors' acquisitions. Del Mel et al. (2009)

found very strong evidence that the characteristics of the owner do matter for innovation strategies. Zhang (2008) also discussed that different ownership structure makes owners to prefer different innovation strategy. Relying on these discusses, we summarize our first hypothesis:

H1. GTG transmission and Chinese acquisition as different ownership changes in family business in wine sector impinge the innovations of different types.

Del Mel et al. (2009) pointed out that the most common form of innovation for small firms is marketing innovation, measured by whether the firm has implemented a new design or product packaging, significantly changed the way merchandise is displayed, introduced a new channel for selling goods and services, or introduced a new method of pricing products. The rapid evolution of the world wine market during the recent years influences marketing strategies implemented by the companies. Therefore, it appears that the Position innovation (Market innovation and marketing innovation), which effects more than other types of innovations on company's development, becomes extremely important for wineries. Considering this, we put forward the second hypothesis:

H2.Both ownership changes are more focused on the Position innovation.

3. RESEARCH METHODOLOGY

The research methodology employs case study approach supported by interviewing, mapping and modelling. The eight interviews have been conducted in a semi-structure, with chateaux owners of French and Chinese origin, each of the eight interviews has lasted about 90 minutes. We triangulated with complementary information from the analysis of secondary sources of data based on media materials concerning other five Chinese chateaux owners to strengthen our understanding of the case (Yin, 1994).

Our comparative study of the emerging data fed into subsequent systematic analysis using a suggested conception model and a content analysis (Neuendorf, 2002) and mapping technique (e.g. Eden and Ackermann 1998, Bouzdine- Chameeva, 2006). Content analysis has been used for the in-depth overview of innovation dimensions and parameters suggested by the conceptual model which we have put forward. Then we use mapping technique for understanding causal relations between ownership and traditions; ownership and innovation and define the links between innovation parameters and dimensions. First we draw individual causal maps, and then we combine them into a collective map for all the interviews. Mapping enables us to reveal causes and effects and pinpointed the importance of ownership changes on strategic, financial and organisational level as well (for more information on the technique see for example Ginsberg, 1994; Eden and Ackermann, 1998).

This study allows us to propose a conceptual view on innovations versus traditions in family businesses in the wine sector. The two kinds of ownership employ innovation differently in Product, Process, and Position levels.

4. FINDINGS

The results of the content analysis performed for the interviews with owners and managers of the eight wineries. We have elaborated the five themes and the list of major items per each theme related to the research questions. The key words used by the respondents during the interviews are listed in Figure 2.

Figure 2: The key words referring to the themes:

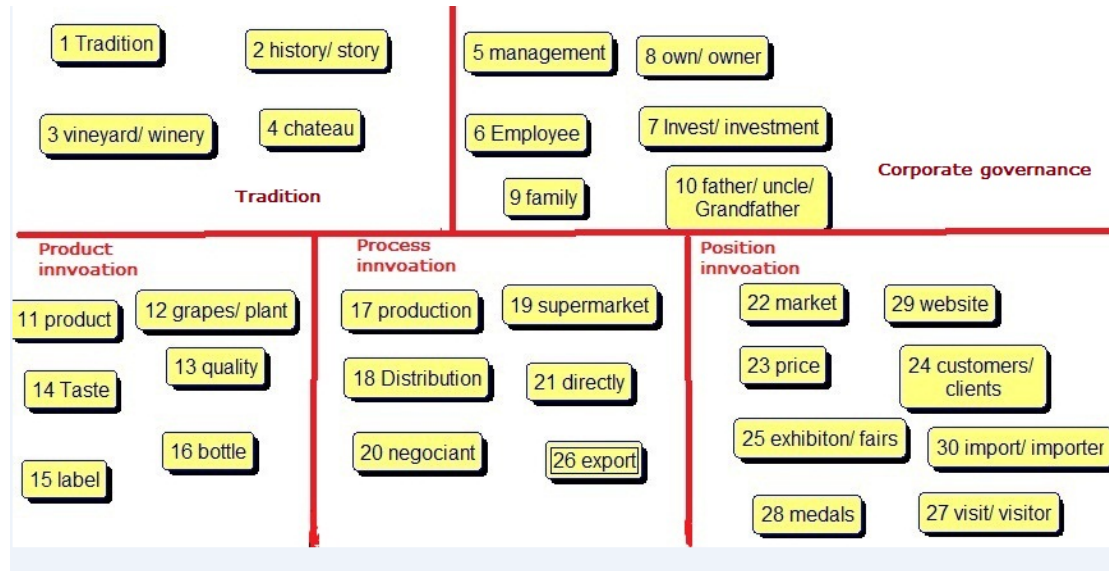


Table 1 presents the results of our content analysis. We have calculated the number of words mentioned by the respondents, and then summarized the numbers for each theme.

	Chinese owned companies				French owned companies			
	A	B	C	D	E	F	G	H
Traditions	88	66	147	157	60	74	89	150
Corporate Governance	257	141	207	80	160	169	94	175
Product innovation	217	70	144	114	99	138	142	118
Process innovation	83	87	50	81	87	100	73	114
Position innovation	347	264	325	231	291	275	273	314

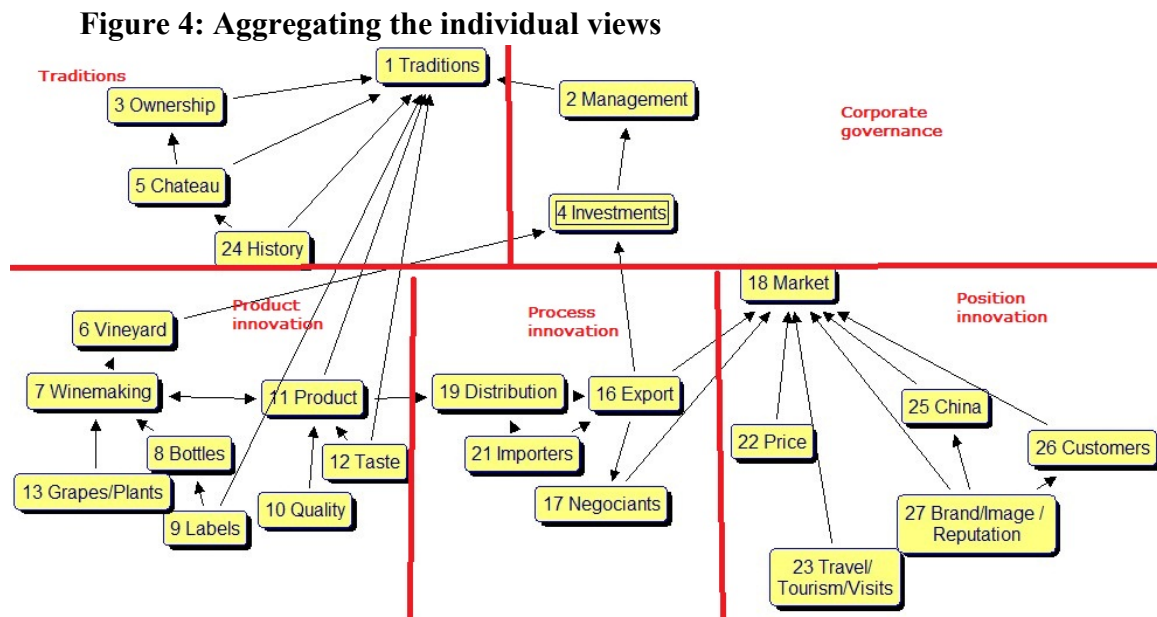
Table1: Numbers of each theme mentioned by the respondents

We observe that all respondents are strongly focused on Position innovation, which is most frequently referred by all of them. The ownership change pushes them to develop new market, focus on new customers, and find the new ways to promote. This development is a priority axe of innovations. The governance changes are directly linked to the ownership change which is mentioned by all the respondents. The third innovation axe is seen differently by the respondents which focus either on the Product or on the Process.

This result differs from the findings obtained by Aylward et al (2006) in the analysis of Australian wineries. According to his study the product innovation was more important. However, we could argue that in such a traditional wine market as Bordeaux, the product (wine) innovations are less appealing for wine producers.

Take the example of the individual map of the chateau F owner (Figure 3), His perception of innovations includes label and taste, so the owner focuses more on production innovation, then he links the product innovation to the process innovation (Taste links to Production, and Quality links to Technical/ machine). The analysis of shareholders issues and the role of family in Governance innovation, the interviewer underlined the importance of traditions, history, and the promotion of the vineyard story on the website (a new tool of marketing innovation).

Based on the eight individual maps, In Figure 4, we present a collective map aggregating the individual maps of the eight performed studies.



In this aggregated map¹, we observe the following central concepts Tradition, Product, Export and Market, which represent the concepts that are most highly elaborated (a lot of concepts linking into and out of them) and which have a significant influence on the model as a whole.

We summarise below our findings concerning Product innovation, Process innovation and Position innovation.

Profile 1: Product innovation

Both transmission GTG and to foreign owners have introduced product innovation. The GTG change mainly focused on the new product design according to their resources, (Company F: “I have some part of a vineyard not good to make red wine, so I use it to make rose wine”). While the foreign owners change product to better adapt it to the market requirements. The GTG change choose rather innovating labels and packaging slightly and regularly while the Chinese owners prefer to keep the traditional label to put an accent on winery's history to attract new customers.

¹ This aggregated map is a so-called a map of enlightened majority and is built following the procedure explained in details in (Scavarda et al; 2006 and Bouzdine-Chameeva, 2007)

Profile 2: Process innovation

Most GTG owners keep their volume of production to maintain the wine quality and preserve a wine brand. The Chinese investors prefer to increase the production by introducing new techniques and satisfy the growing demand of the Chinese market. In terms of distribution channels, the GTG owners keep the old network and sales to wine merchants, or direct sales. At the same time the Chinese investors sell everything to their own import company in China, or build their own channels in China, through their “Guan Xi” and /or existing channels or shops. (Company A: “we cut all the old networks and old customers and shipped everything to China, it is not sufficient, we sold all our stocks, and we buy wine from other Bordeaux producers”)

Profile 3: Position innovation

In both cases, we witness the customer and market changes as the main issues and challenges Bordeaux wine producers are facing now. As consumption in traditional countries decreases, they are forced to enter new markets, and attract new customers. The GTG owners are more inclined to keep the existing sales network, use wine exhibitions and saloons or visit customers (or distributors) to learn more about their kinds clearly and promote wine more or less directly. (Company G: “I sell all my wine through negociants, but they have so many wines to sell, so I need to visit my customer, show our wine in exhibitions to do the promotion”) On the contrary, Chinese investors prefer to give up the old network of the old business, sell part or totally all produced wines to Chinese market, and invite their main customers to visit the property they put in place wine tourism options and activities as a part of the promotion practice.

5. CONCLUSIONS

We have performed the empirical study to propose a conceptual view on innovations versus traditions in family businesses in the wine sector. In this research we have presented the analysis of Bordeaux wine business ownership change, focusing on the two extreme types of transmission, from generation to generation and from a French owner to a Chinese investor.

The cooperate governance, including the strategies, organization and financial, emerges inevitably with the ownership change (new employees are hired the organisational structure is reconsidered, new financial investments are examine). Our findings show, that the two kinds of ownership emphasize different dimensions of innovations on Product (eg: making new wine, designing new labels, offering more services ect...), Process (eg: changing distribution channels, ameliorating production process, ect...) and Position (eg: getting new customers, entering new markets, using new ways to promotion, ect...). This validates our first hypothesis.

In both cases, the respondents are strongly focused on Position innovation. This result confirmed our second hypothesis. it is different from the result of Australian wineries Aylward et al (2006), which centre on product innovation (54% product innovation compare to 34% of marketing innovation) This can be explained by the traditions of the Bordeaux winemakers and also by market characteristics. Australia is a new wine producing country, and production innovations become more important

and appealing than for Bordeaux companies with their established wine making traditions. They benefit of the reputation of the wines though they need to adapt to new markets and are forced to focus more on the Position innovation. The GTG owners in Bordeaux have developed traditions through decades and they innovate slowly focusing more on slight general innovations. While foreign investors bring more innovations in the channels, though keep traditions on the production, history and quality.

To conclude we could state that the two kinds of ownership employ innovation differently in Product, Process, and Position levels, but both emphasizes on Position innovation. To be successful in the renewed company, the new owners should focus more on the position innovation, for example, develop new market and find new customers. And at the same time, craftily balance traditions and innovations in wine sector.

The present study has certain limitations that need to be taken into account. The number of the sample size is not sufficient for the external validity of the findings; besides, the Chinese investors have their own characteristics which cannot be extended on other foreign investors. We plan to enrich our study by other cases. In addition, we plan to study the Bordeaux wine sector investors from other than China countries, and compare the innovation strategies implemented by different foreign investors.

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