

Implications of strong resource capabilities in a family wine business

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◦Purpose

Family business longevity is one of the bellwether subjects of family businesses. Historically longevity has been seen through the lens of succession planning and processes, and this article is guided by this foundation of literature. However we concentrate on one aspect of the succession, that is, the resource capabilities family firms in the wine industry possess and how they relate to continuity.

◦Design/methodology/approach

Three case organizations were visited and 27 interviews conducted for this study. The sample of New Zealand family wine businesses included medium-sized family businesses with at least two generations in the business. The analysis was carried out in two phases: data management and coding utilizing NVivo 9, then further reduction and synthesizing of data through a matrix display.

◦Findings

Through a synthesis of themes based on open-coded concepts we arrived at two primary themes – Affluence and Character – which underpin resource capabilities in family winegrowers. We found that these resource capabilities can be highly influential in determining the continuity or discontinuity of a family business.

◦Practical implications

We propose a continuity matrix that summarizes the strength of character and affluence in relation to continuity.

Key words: Wine, family business, succession, continuity

1. INTRODUCTION

As one of the more fashionable traditional industries, winegrowing has the same issue as many other industries around the bellwether topic of succession (Sharma et al., 2012). Rather than concentrate on the succession process itself we focus on the resource capabilities and their role in the successful continuity of a family business. Family businesses have a significant presence in the winegrowing industry with about 70 per cent of all winegrowing businesses globally being family owned and managed (Woodfield, 2012). Moreover, there is a growing body of knowledge that specifically focuses on the idiosyncratic issues and challenges faced by family business (Sharma et al., 2012).

Originally promoted by Penrose (1959), resource capabilities are best understood through the resource-based view of the firm (Barney et al., 2001, Barney, 2001, Barney et al., 2011, Wernerfelt, 1995). Barney (2001) suggested the resource based view seeks to understand sustained competitive advantage, which is argued “to derive from the resources and capabilities a firm controls that are valuable rare, imperfectly imitable, and not substitutable” (Barney, 2001, p. 625). Resources are differentiated as tangible and intangible assets under the firms control such as management skills, organizational processes and routines, and information and knowledge (Barney, 2001). In the family business context, the resource based view has spurred what has come to be known as “familiness”:

Familiness is defined as the unique bundle of resources a particular firm has because of the systems interaction between the family, its individual members, and the business.... [Familiness] provides a unified systems perspective on family firm performance capabilities and competitive advantage. (Habbershon and Williams, 1999, p. 11)

A family business and the attributes which are idiosyncratic to that family business, contribute toward their competitive advantage. With this in mind, we question whether resource capabilities are decidedly influential in determining the continuity or discontinuity of a family business.

2. METHODOLOGY

This study is founded on data collected from 27 interviews over three case sites. The research approach was qualitative and sought understanding through “actions, events, processes, objects and actors... [where] novel and unexpected understandings” could emerge through patterns in the empirical data through a broader theoretical frame (Nordqvist et al., 2009, p. 298).

A case study strategy was implemented (Eisenhardt, 1989, Gibbert et al., 2008, Stake, 1995, Yin, 2009, Siggelkow, 2007). For this study the choice was made to minimize the number of cases but investigate all in-depth. The selection of family wine businesses was informed by publicly available information and included medium-sized family wine businesses being wineries that produce between 200,000 and 4,000,000 litres (New Zealand Winegrowers, 2013 ###). Each family business had at least two generations in the business that held majority shares. Typically across the three case sites, the senior generation owned the business while the next generation were in leadership positions including marketing, winemaker, or viticulturist. The employees that were interviewed were generally in senior management across all three case sites. Financial and human resource figures were not provided.

Without exception, senior and next generation family members employed in the business were interviewed, alongside a selection of non-family employees to encourage further useful insights

(refer Table 1 for case demographics). Each interview lasted 45-120 minutes and anonymity was achieved using aliases, fictitious locations, and company names. Observations and archival evidence provided further understanding and context about the winegrowing businesses including historical accounts and the family’s storyline.

Table 1: Basic case site demographics

<i>Case site pseudonym</i>	Generations in business	Age of Business (approx.)
<i>Merlot Family Vintners</i>	Second and third	~100
<i>Sauvignon Family Estates</i>	First and second	~40
<i>Riesling Family Winegrowers</i>	First and second	~30

The analysis was carried out in two phases: data management and coding utilizing NVivo 9 (QSR International qualitative research software), then further reduction and synthesizing of data through a matrix display using Microsoft Excel. This second phase meant taking quotes that were thematically rich and breaking them down into short sentences where convergent concepts, differences and similarities, and patterns were open coded, reduced to first order themes, then synthesized into second order themes before being aggregated into theoretical dimensions.

3. FINDINGS

Through a synthesis of themes based on open-coded concepts we arrived at two primary themes – Affluence and Character – which underpin resource capabilities in family winegrowers (Figure 1). We found that the resource capabilities can be highly influential in determining the continuity or discontinuity of a family business. Table 2 displays representative data relating to Figure 1. The terms used are a result of the iterative process of replication and pattern recognition resulting in emerging themes.

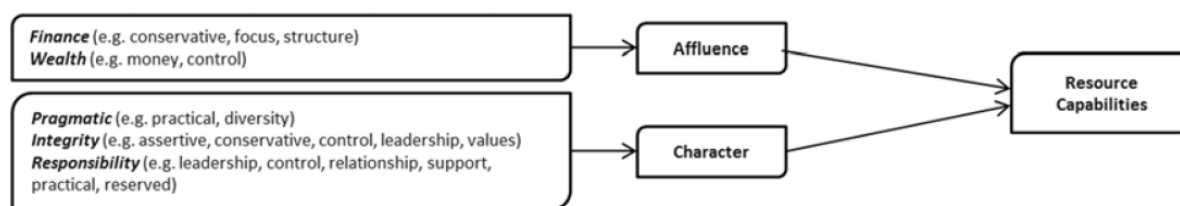


Figure 1: Resource capabilities data structure

The *affluence* theme is best illustrated through examples from each case site. First, the Merlot family emphasized being asset rich but were less concerned with return on investment. The Merlot family understated their wealth even though they had considerable land holdings, equipment, and product. There were stakeholders from the wider family who received dividends and as an older established firm the accumulation of wealth was not surprising. They maintained a manageable level of debt through a long-term orientation strategy, which contributed to their current strong financial position. The family were conservative but supported longevity in a competitive market. This meant the family and the business were not over exposed debt-wise. This strategy is in agreement with Molly, Laveren, and Deloof’s (2010) suggestion that “descendants usually have a lower willingness to take risks ... and have a stronger preference for wealth preservation instead of further wealth creation [and] try to

avoid a highly leverage capital structure” (Molly et al., 2010, p. 133).

Table 2: Resource capabilities themes and representative data

Second-order themes	First-order themes	Representative data	
Overarching dimension: Resource Capabilities			
1. Affluence	A. Finance	Q1. <i>“I suppose it gets down really how high you’re prepared to leverage yourself”</i> (Melvin Merlot)	
		Q2. <i>“We’re a firm believer in owning everything”</i> (Simon sauvignon)	
		Q3. <i>“... but it’s something (the new venture) we had to incorporate into the family because we had no means of going out and raising a shitload of capital to actually do it”</i> (Roger Riesling)	
	B. Wealth	R1. <i>“... we’re making a comfortable living now and, that’s enough”</i> (Murray Merlot)	
		R2. <i>“Everything you see here, we own and pay cash for”</i> (Simon Sauvignon)	
		R3. <i>“... harvesting – you don’t wait for a harvester, you’ve got your own. Bottling – don’t wait for wine bottlers, we’ve got our own. Bubbles. We used to have to line up with the person up the road – nah, not having that. Have our own”</i> (Grant)	
2. Character	C. Pragmatic	S1. <i>“... from the background from university – we had a professor what said hops, tobacco, grapes, go straight in and plant it. You don’t need to look at any climate and so on”</i> (Solomon Sauvignon)	
		S2. <i>“We grafted everything and then I found the root stocks [that] didn’t show much phylloxera [and] didn’t show much leafal virus [with] no scientific evidence of that but just by the eye”</i> (Solomon Sauvignon)	
		S3. <i>“... whereas Roger’s the one with the thoughts but I’m practical and I can make it work or say it doesn’t work”</i> (Ruth Riesling)	
		D. Integrity	T1. <i>“He’s a very focused gentleman”</i> (Suzie Sauvignon)
			T2. <i>“If you’re in a bloody mess you’ll never make wine, so that’s sort of been the bottom line”</i> (Roger Riesling)
			T3. <i>“She doesn’t beat around the bush and she’s got a bit of a reputation for that, to be honest”</i> (Gordon)
	E. Responsibility	U1. <i>“I’m the Chairman, Murray’s [the] Managing Director and Morgan [the] General Manager”</i> (Melvin Merlot)	
		U2. <i>“Sylvia is the boss. Like, I think you’ll find most wives in wineries. In wineries the wives are always the boss”</i> (Nathan)	
		U3. <i>“Now that we’ve gone into it being a family they are all strategically important”</i> (Roger Riesling)	

Both generations of the Sauvignon family reported they were wealthy and owned all that they have. The next generation had a similar attitude to money as the senior generation and had no intention to devalue the hard work that went into accomplishing the business. Instead they intend to concentrate on positioning their wine as a quality product as a result of not needing to be concerned about finances. In contrast, outwardly the Riesling’s family business appeared wealthy, but the corporate business model had run its course and needed reconsideration to align more with the family’s needs for a successful succession. The continual growth the Rieslings experienced left some uncertainty and elevated levels of debt when the industry reached a plateau as a result of the economic climate. They considered the debt issue to be significant enough to restructure. By balancing debt and wealth, each family was able to extend their other capabilities (human resources, plant, or equipment), and cement their competitive advantage. The control of debt became more important as the businesses developed across generations. This need for financial control could result in family businesses being reluctant to seek finance externally as it may dilute the family’s control over the business (Molly et al., 2010). Each of the family businesses investigated were wary of pursuing external finance although the Riesling family had sought external finance for a significant side project started by the next generation.

Character related to those attributes that align with integrity, pragmatism, and responsibility. Each family described their approach to business decision making as hands-on and practical. The senior generation of the Sauvignon family epitomized this. They were just as happy with

tools as they were leading the business. In contrast, the Rieslings were more business-like and had stepped away from the more practical side of the business. The integrity theme related to what individuals were known for, and how it was reflected in the family business' image. Integrity can be a source of competitive advantage, which can be reassuring to customers and suppliers (Barney, 1991). Each of the family businesses investigated had an excellent reputation and each family referred to family ownership being a factor in their integrity. At an individual level, some benefit from a reputation of being tough, professional, and business minded. The founder of Sauvignon Family Estates had a reputation for being focused and very motivated which made him come across as being stubborn. This stubbornness translated into perseverance and supported the pioneering nature of the family business especially when pursuing opportunities that work against commonsense.

Responsibilities were viewed as important but were not always obvious by the way they were assigned. For example, each member of the next generation of the Riesling family had a directorship over a function of the business which they also managed. Again, the Merlot family had assigned roles and were forward thinking about the role that another next generation family member would play when he entered the business. In contrast, the Sauvignon family had assigned roles but with less structure. An example was the dual winemaker role between siblings, and the overlapping responsibilities mother and daughter in the Sauvignon family. This overlap between generations could be interpreted as a transition period of responsibilities for the family as the senior generation reached retirement age (Handler, 1990, Handler, 1994).

As a resource, employees in each family business investigated reported their intention to stay with the family business long term. This can be an important competitive advantage for family businesses (Brigham et al., 2013). Where possible each family employed staff over contracting to fill key roles. This decision allowed the families to have control over their product, and ultimately the integrity of their business. An extreme example of retaining control over the integrity of the brand was the Sauvignon family's decision to directly employ the people that would distribute their product domestically which is contrary to normal practice. Overall, each case site was fortunate that the next generation generally filled different leadership roles which maintained the integrity of the business being run by family.

4. IMPLICATIONS AND CONCLUSIONS

Observations made during the course of this study led to questioning what points toward continuity or discontinuity of a family business. A matrix was derived from the affluence and character themes, based on the findings of this study (refer Table 2). The matrix summarizes what contributes to continuity, and discontinuity of a family business.

From observations made, both the Merlot and Sauvignon families would be assigned to the "legacy" quarter, while the Riesling family would fall into the "innovation" quarter. Riesling Family Winegrowers, although young, was the most corporatized, and found to have the least stability portraying a need to endure and reconsolidate through risk-taking. This endurance may be a result of their business being on a growth trajectory since inception, which is comparable to their stage in the business life cycle. Conversely, the least corporatized business, Sauvignon Family Estates, was found to be in a stable position, although they may consider a more formal governance structure to mitigate complacency.

Table 2: Proposed resource capabilities in relation to continuity matrix

	CONTINUITY	DISCONTINUITY
	Character (High)	Character (Low)
Affluence (High)	Legacy Stability and diversity <i>Promotes sustainability</i>	Harvest Complacency and indulgence <i>Promotes exit</i>
Affluence (Low)	Innovation Risk-taking and action <i>Promotes endurance</i>	Insolvency Uncertainty and hardship <i>Promotes apathy</i>

Further, the Riesling family will move to the legacy quarter given they had indicated their commitment to the reconsolidation of their business. One event that could mean a shift toward the discontinuity quarters is where the next generation decide to follow other interests, or if the non-executive directors retire and are not replaced. Cognizance of the implications of these situations and anticipating such possibilities, would contribute to the family business being more robust. In summary, the resource capabilities matrix is proposed as a tool for displaying the impact of decisions where affluence and character are concerned.

Succession studies recognise that approximately one third of post start-up family businesses reach the second generation however the viability for survival drops significantly when the business reaches the third generation (Ward, 1987, Kets de Vries, 1993, Astrachan and Shanker, 2003). With this in mind, future research may raise questions about whether the same type of resources and capabilities held by the start-up generation are what are needed for the second, third and subsequent generations. Any differences from generation to generation could affect the continuity or discontinuity of the family business. However, a more granular investigation would be needed to understand any generational idiosyncrasies that impact the continuity of the family business.

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