The Triple Bottom Line in the Global Wine Industry

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Abstract:

Purpose: Sustainability is increasingly becoming important to global business, and the wine industry is no stranger to this trend. The purpose of this research was to empirically explore the extent to which all three dimensions of sustainability are practiced within the global wine industry to begin to form theory on the future of sustainability in this industry.

Design/methodology: A qualitative study of 112 wine businesses from thirteen regions around the world was conducted over the course of six years to determine sustainability practices. Data consisted of depth interviews with wine business managers, organization documentation, website information, operation observations and photographs. The data were analyzed using accepted practices from grounded theory and content analysis to examine how the dimensions of sustainability are practiced.

Findings: Few participants practiced the comprehensive triple bottom line; the majority were focused on financial sustainability of their company and a large percentage were concerned with both financial and environmental sustainability. Applying legitimacy theory, we found that companies influenced by moral legitimacy motivated practice of more comprehensive sustainability, whereas pragmatic and cognitive legitimacy drove the practice of more specific (single) dimensions of sustainability.

Practical implications: Our findings suggest that the comprehensive sustainability perspective is not prevalent in the wine industry, primarily due to a lack of attention to social sustainability. The primary driver for the triple bottom line is moral legitimacy, or the internal desire to "do the right thing". Customers have a great deal of power in influencing company behavior; therefore they could play a role in moving the industry toward the triple bottom line.

Keywords: Sustainability; triple bottom line; grounded theory; legitimacy theory

1. INTRODUCTION

Sustainability, often defined at the macro level as meeting the needs of the present without compromising the ability of future generations to meet their own needs (UN Documents, 1987) has developed into a critical topic for both scholars and industry that now contemporarily involves a "triple bottom line" perspective on the environmental, social and financial longevity of organizations. All three of these pieces of the "triple bottom line" impact and are impacted by the wine industry - businesses in this industry are trying to profitably create and sell an agricultural product that is regulated. Thus, sustainability has been prevalent in wine research over the past decade; however, much of that has focused specifically on environmental sustainability (e.g., Flint and Golicic, 2009; Forbes et al., 2009; Silverman, Marshall and Cordano, 2005) or what it means (e.g., Carter and Rogers, 2009; Lahneman, 2015; Szolnoki, 2013). Recently, there has been some work examining managerial philosophies with respect to sustainability and managing the supply chain (Signori, Flint and Golicic, 2015), but even this work picks apart the dimensions of sustainability.

An important question is: are there specific motivations that drive a more comprehensive implementation of sustainability versus a single dimension? While there has been research examining the motivations driving sustainability practices (e.g., Gabzdylova, Raffensperger, and Castka, 2009; Windolf, Harms and Schaltegger, 2014), there are only a few exploring sustainability comprehensively as the triple bottom line within the wine industry (e.g., Pullman, Maloni and Dillard, 2010; Santini, Cavicchi and Casini, 2013). The purpose of this research is to begin to fill this gap and answer practical questions such as the following. Are wine businesses truly sustainable from the triple bottom line perspective? Are there any differences in these views based on timing, region, or position in the supply chain (or type of business)? More importantly, are there different motivations driving whether a business implements a single dimension or sustainability as a whole? Using a grounded theory study and the application of legitimacy theory to our findings, we begin to develop theory about the pursuit of the triple bottom line in the wine industry. Because we use a grounded theory methodology, pertinent literature was sought as part of the data interpretation and is therefore presented as part of the results.

2. METHOD

This empirical research is part of a large, multi-year (2009-2015), multi-region exploration into business practices and issues in the wine industry. We adopted aspects of ethnography, grounded theory and phenomenology in data collection and interpretation and followed accepted procedures. The ethnographic aspects included observation, interviews and artifact collection within clusters of wine regions around the globe seeking norms of behavior, assumptions, roles played by actors, and meaning making (Arnould and Wallendorf, 1994). The grounded theory aspects involved the same data collection aspects but added coding processes which helped to explain social processes in which participants were engaged as they tried to solve problems in their everyday lives (Glaser, 1992). The phenomenological aspects focused on the interviews specifically where we sought what it meant to be a wine

maker, winery marketer and so forth (Thompson et al., 1989; Thompson, 1997). To address our specific research questions, we also content analyzed the findings to categorize each business on the three dimensions of sustainability (Harris, 2001).

In total we visited 112 wine businesses (wineries, retail locations, and suppliers such as growers and distributors) of various age and size in thirteen regions of six countries, conducting interviews with owners or managers, collecting marketing collateral, and photographing/observing operations over a four year period. The convenience sample was selected based on practices they described on their website (e.g., sustainability, innovation) and through personal contacts in order to ensure variability in the sample. Table 1 provides the breakdown of the businesses in our sample. All documents were scanned for interpretation, and all interviews were audio-recorded and transcribed verbatim. Three researchers well-trained in qualitative research shared interviewing responsibilities, and all interpreted the data, coming together regularly to reconcile interpretations. Executive summaries were sent to study participants along the way to gage the relevance and accuracy of the interpretations.

Table 1: Research sample

Region/Country	Type of Business(es)*	Number of participants
Waipara and Marlborough, New Zealand	Retail and wineries	9
Margaret River and Barossa Valley, Australia	Retail, suppliers, and wineries	28
Walla Walla, Willamette Valley, Napa and Sonoma, USA	Retail, suppliers, and wineries	32
Veneto and Tuscany, Italy	Retail, suppliers, and wineries	24
Rheingau and Pfalz, Germany	Wineries	11
Bordeaux, France	Suppliers and wineries	8

*Retail includes bottle shops, restaurants, bars; suppliers includes growers, distributors/wholesalers, material suppliers

3. FINDINGS

3.1 The Triple Bottom Line in the Wine Industry

Based on the data collected at the time in which it was collected, we categorized all of the businesses as either low or high on financial sustainability, environmental sustainability and social sustainability. These categorizations were determined based on information provided by those interviewed and their perceptions of these terms.[2] For instance, if an interviewee spoke about a particular dimension and any company efforts, then they were categorized as high. Organic, biodynamic and natural farming are often used in the wine industry, and these practices were perceived by the study participants as being environmentally sustainable and

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[2] Financial was perceived as activities that positively impacted long term financial performance (revenue, costs, profit) of the company. Environmental was perceived as any activity that lessened the impact of the product and operations on the environmental. Social was perceived as any activity that improved social conditions for employees or lessened the impact of the production and operations on society.

therefore earned a business a high environmental sustainability rating.[3] This Oregon wine producer was categorized as high on social sustainability for explaining their philosophy. "*We feel like we have a responsibility for each of the people who are on the vineyard, and there's a great organization out here that provides healthcare to Oregon's vineyard workers and their families – and since we've opened the tasting room we've always given all of our tasting fees to that organization.*" If they did not mention sustainability or discussed it negatively, they were categorized as low. As an example, the following quote from a small Australian producer demonstrates how one was categorized as low on financial sustainability. "*And all of our work was associated with developing a premium wine. There was no desire to make money as a final objective; the objective was to create a lifestyle in the process of making premium wine.*"

Figure 1 shows the overall categorizations in a three dimensional diagram. Only nine percent of the companies interviewed were truly concerned about the comprehensive triple bottom line (in brown). An Australian wine producer that had a sustainability manager was not surprisingly categorized as high on all three dimensions, and this manager noted, "*The primary reason being we're doing what we're doing because it's the right thing to do morally, economically, socially and environmentally. In other words we want to survive and sleep comfortably at night.*" Forty-six percent were considered to practice two of the three dimensions (41% environmental and financial in orange, 2% environmental and social in green, 3% financial and social in purple), and thirty-nine percent practiced one (33% financial only in red, 5% environmental only in yellow, 1% social only in blue). A California winemaker demonstrated being high on environmental and social sustainability when he said, "*The mission is to take care of the vines, take care of the property, make great wine, run it responsibly and turn the profits over to the [non-profit] foundation - that's pretty much the mission.*" That left nearly six percent that were not considered to be sustainable at all.

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[3] While the authors and others may not agree that these practices are always environmentally sustainable, the study participants discussed them as being so; therefore, we rated them as such.

Figure 1: Sustainability categorizations of businesses
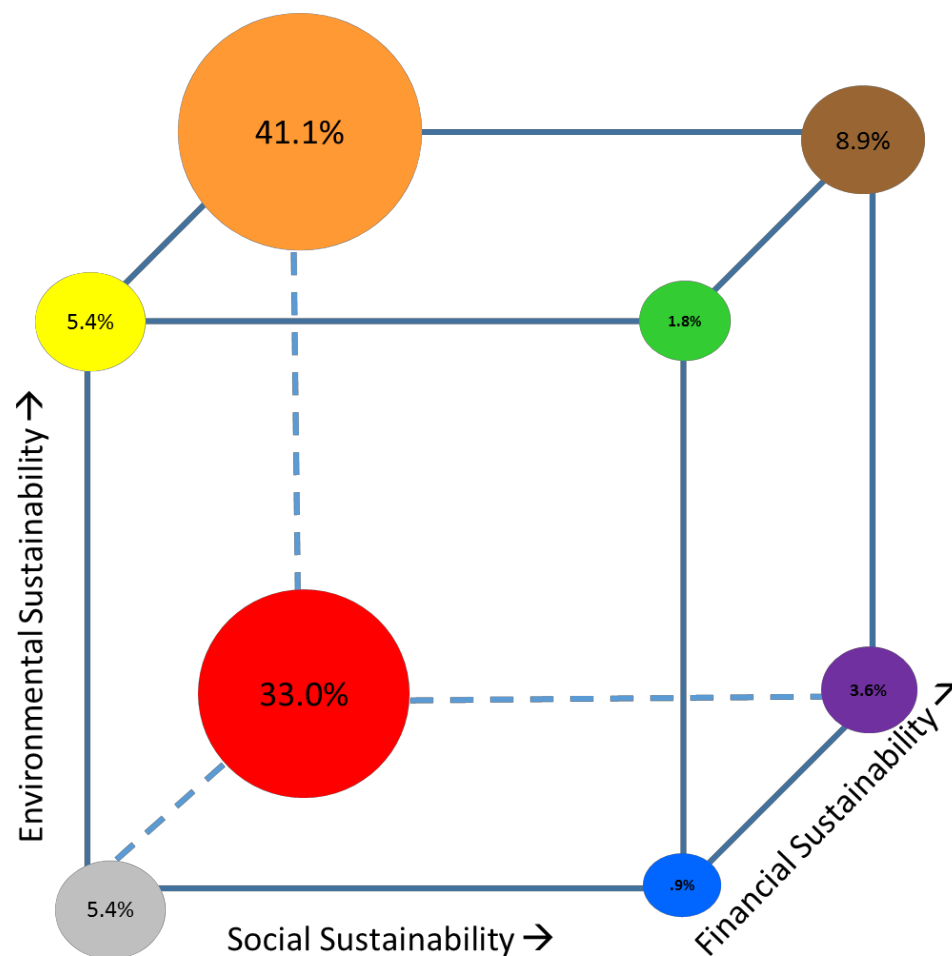
The categorizations were then compared across countries, their position in the supply chain (supplier, winery or retail), and the year in which the data were collected. Across time, the categorizations seems to be consistent with the exception of social sustainability. The interest in this particular area is growing, and our data supported this. The position comparison yielded interesting results from the suppliers (e.g., vineyard managers, custom crush facilities, contract winemakers); they were all low on social and high on financial sustainability. Regional differences were detected for Italy (lower than the rest on social sustainability), Germany (lower than the rest on environmental sustainability) and France and New Zealand (all participants from these countries were high on financial sustainability).

3.2 Motivations for the Sustainability and the Triple Bottom Line

When discussing sustainability practices in whatever form adopted, the participants in our study mentioned different motivations driving those business decisions. These motivations ranged from external influences such as customers to internal philosophies of the company and its management. Some businesses mentioned a particular stakeholder influencing their practices while some expressed the desire to practice sustainability simply because it was a deeply held personal belief. A review of the literature related to what drives organizational behaviors led to legitimacy theory (LT) because it considers both external and internal

influences on organizational decisions (Deephouse and Suchman, 2008). Legitimacy is defined as "…a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Suchman, 1995, p. 574). Only one other study has applied this lens to sustainability in the wine industry, but it only examined the environmental dimension (Lahneman, 2013).

There are three primary forms of legitimacy: pragmatic, moral, and cognitive (Suchman, 1995). The first of these, pragmatic legitimacy, has an external focus and is very "self-interested" legitimacy, in that it deals with meeting the expectations of trading partners in order to appear legitimate (Cousins and Robey, 2005). As long as the organization is satisfying the needs or providing some value to stakeholders, the stakeholders will see the organization as legitimate (Castello and Lozano, 2011). In our study, many wine businesses were driven to sustainability based on demands from their customers, particularly distributors and retailers. For example, when describing relationships with their customers (notably Tesco in the UK), an Australian producer noted "*I think sustainability is a concept that is driven largely by the supermarkets because they believe it's what their consumers want*." An Oregon producer echoed this when telling the story of selling their product to Whole Foods (a natural food store in the U.S.). "*The wine buyer at Whole Foods is absolutely more likely to put you on the shelf if it says OCSW or if you can give him some other reason to believe that you're one, one of the sustainability "good guys". In other words he knows he's going to say yes to that wine partly because it's carbon neutral.*"

Those businesses that noted their practices were driven by the customer discussed one or possibly two dimensions of sustainability. Distributors largely required attention to pricing, which would influence a desire for financial sustainability. Indeed, working with a distributor at all implied a smaller profit margin for a producer. Likewise, producers were often concerned with cost when it came to purchasing grapes from growers, while some demanded their growers use environmental practices in their vineyards. Research in the wine industry supports stakeholder demand for environmental practices (Forbes et al., 2009; Gabzdylova, Raffensperger, and Castka, 2009; Silverman, Marshall and Cordano, 2005). Retailers often required certain pricing as well, but some were also concerned with the product being organic or biodynamic. We did not find any instances where a customer drove comprehensive sustainability. Therefore we propose the following.

> P1: Pragmatic legitimacy influences adoption of specific dimensions of sustainability based on stakeholder demands.

The other two types of legitimacy are more internally focused. Moral legitimacy focuses on whether an action is "the right thing to do," without regard to evaluation of how external parties view the situation. This exists when sustainability is the personal philosophy of someone within the company, such as the founder or upper management. An Oregon producer practiced organic and biodynamic farming from its inception in the 1970s. They were quick to participate in any newer sustainability initiatives, and our participant stated the founders, "*started the 'green program' long before anyone had really started the 'green*

program.' You know we were just on the cusp too of people starting to recognize organic and biodynamic." Some companies were conceived with this as part of the way in which they would operate. One Australian producer told stories of growing up in a family that practiced sustainability in everything they did and so it was ingrained in him. When describing sustainability practices, another producer noted, "*It's definitely a feeling from the inside of this is what we should be doing anyway.*"

One restaurant owner discussed their sustainability practices which ranged from capturing and treating rainwater to serve in the restaurant to using entire animals to growing their own produce and making their own vinegars. He also noted that these practices provided them more control over what was served and how much was charged for it. He stated, "*that's our goal...that's how this restaurant runs.*" He had been exposed to these practices in the years of training that occurred before opening this restaurant; thus it was in his DNA to practice sustainability. All of the businesses that were concerned with the comprehensive triple bottom line had this sort of perspective, and research in the wine industry has shown that internal pressures to be good stewards drive sustainability (Silverman, Marshall and Cordano, 2005). Therefore we offer the following proposition.

>   *P2: Moral legitimacy influences adoption of a more comprehensive triple bottom line perspective of sustainability.*

The final type of legitimacy, cognitive legitimacy, is more nebulous, a "take-it-for-granted" view of the organization or its activities, that the organization and its behaviors are as they should be; they are congruent, and are thus accepted (Aldrich and Fiol, 1994; Suchman 1995; Deephouse and Suchman, 2008). This basically supports a business adopting practices it wants to implement simply because they feel they have some reason for it, and likewise not adopting something if they do not feel they need to. Some of the companies we interviewed were pretty adamant that what they were doing, whether practicing dimensions of sustainability or not, was just fine, and they had no intention of changing that. For example, a producer in Washington explained, "*We could say that our grapes are grown biodynamically, but the paperwork right now is pretty cumbersome and I think that – well we just have enough on our plates that we don't really need to add that to it.*" A marketing manager for an Italian producer felt what they were already doing was acceptable and that if sustainability certifications were going to change what was required, then they might not be interested. "*So I think for us the first issue would be before changing, before taking a short cut, before using technology or chemistry in order to change a process we really have to take an account if it's a real advantage or not. Again we do believe that we are coming from something which was by definition organic...agriculture of 150 years ago it wasn't an issue whether to be organic or not.*"

This type of legitimacy often played out when a business considered a trade-off to exist among the dimensions (i.e., one has to decrease for the other to increase). An example of this is between environmental and financial sustainability. When asked about sustainability practices and certifications, one Australian producer said, "*I'm not interested. The other thing about it is that my wife and I have always said that if we come to a point where we find*

to decide if we stick to organics, biodynamics and watch our crop fail or do we spray, it's a no brainer isn't it? We're going to spray so we can pick our grapes so we can make wine which is our income." This perspective inevitably leads to the business implementing some practices and not others based on whatever management thinks is currently important, which leads to our final proposition.

> *P3: Cognitive legitimacy influences adoption of specific dimensions of sustainability based on current managerial philosophies.*

4. CONCLUSIONS AND IMPLICATIONS

This research set out to explore if there were specific motivations that drive a more comprehensive implementation of sustainability versus a single dimension. Our findings showed that the comprehensive triple bottom line perspective was not prevalent in the wine industry. Pursuing one or two dimensions was the norm (86%). Social sustainability was generally the missing dimension; however, the attention to this has grown over the past few years. This is interesting given that wine is an alcoholic beverage with implications to society tied to it.

Being sustainable is tied to the desire for the actions of an organization to be appropriate or legitimate within some socially constructed system (Suchman, 1995). Motivations contributing to the pursuit of sustainability included demand from customers (i.e., externally-focused pragmatic legitimacy), the philosophy of doing the right thing (i.e., internally-focused moral legitimacy), and the view that the behaviors of the organization were as they should be (i.e., internally-focused cognitive legitimacy). Our data supported moral legitimacy as the one that drove a more comprehensive implementation of sustainability, while the other two types generally contributed to the pursuit of one or two of the dimensions. However, it is likely that if customers required all three dimensions, the desire for pragmatic legitimacy could also propel achievement of the triple bottom line.

The data for this study were collected over seven years. It would be interesting to update the data to see if regions where data were collected earlier (e.g., New Zealand in 2009) had changed their sustainability philosophies. The study was exploratory and relied on qualitative data. We relied on practices discussed by respondents to categorize companies on high or low sustainability; it is likely there are more than two levels and further exploration into this (quantitative) could tease out what those are. Propositions were offered from the results; these should be formulated into hypotheses and tested. Sustainability is growing in importance in nearly all industries, and it has been receiving increasing attention in the wine industry. To date, only a few wine businesses are truly sustainable from the triple bottom line perspective. However, there are means available to businesses to drive this further into the industry.

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