# Innovation strategies for resilient SMEs: A case study in the Italian wine industry

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***Abstract:***

*Purpose:* The Italian wine system is now facing new challenges, withstanding a globalized, complex and competitive market. To deal with increasing external and internal threats companies need strategic resilience, a capacity to self-renew over time.

The aim of this work is to investigate which are the innovative strategies deployed by resilient SMEs to react and adapt to unexpected changes.

*Methodology/approach:* Two Italian wineries have been investigated trough a longitudinal multiple case study analysis. Companies have been selected according to the match pair-method. A conceptual framework adapted from Reinmoeller and van Baardwijk (2005) is proposed to investigate the argument.

*Findings:* show that a resilient company is able to employ a dynamic balance of strategies, constantly adapting to changing environmental conditions.

*Practical implications:* Our study wants to contribute to the literature on the resilience of SMEs, proposing a deeply investigation of the Italian wine system. Furthermore it offers insights for practitioners and institutions in the field.

Keywords: SMEs, resilience, strategy, Italy, wine industry

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## 1. INTRODUCTION

The role of SMEs [1] in the global market is worldwide recognized, especially in the European contest, characterized by more than 90% of small businesses. In such a competitive market SMEs face new challenges and goals. Firms have to deal with a global competition, new consumer behaviours and expectations, new technologies and a series of unpredictable events at economic, social and institutional level. This set of uncertainty has given new attention to the capacities of a local system and its firms to adapt and pro-act to internal and external shocks. The new challenge is survive over time, adapting to a continuous unpredictable economic environment. From this point of view what is relevant is the notion of "Resilience". Starting from the seminal works carried out by Holling (Gunderson and Holling, 2002; Holling, 1973; Walker et al., 2004) reformulated by Simmie and Martin (2010) resilience is described as an adaptation process developed to survive over time, continuously self-renewing. From an evolutionary point of view the external events like global competition, technological changes and economic crises, are the exogenous shocks that force a system to change and evolve from a state of equilibrium to a new stage of reorganization.

In strategic management studies resilience is defined as a process capability. Consistently to the evolutionary approach resilient companies are those able to act before the shock occurs and the need for change becomes obvious (Hamel and Välikangas, 2003). The strategic vision of resilience is what Martin (2012) identifies as *adaptive resilience*, the ability of a system to minimize the impact of a shock through anticipatory or reactionary forms of organization. This study deals with the strategic resilience of firms in the wine industry.

The investigation of the possibilities that a firm has to renewal itself when it faces unpredictable events it's a relevant topic both from an academic and an institutional perspective. Studies on the resilience of firms and local systems are on the rise but there are several gaps, especially concerning a firm perspective that considers which are the innovative resources, internal and external, that influence the resilience of SMEs. Furthermore limited research has been addressed concerning resilience in the context of wine industry (Flint et al., 2011) and especially in the Italian wine context (Duarte Alonso and Bressan, 2015) that is more generally under investigated.

The aim of this work is to understand which are the innovative strategies, deployed by resilient firms, to survive over time. Two Italian wine companies have been investigated trough a longitudinal multiple case study, understanding how innovation strategies and organization's resilience are correlated.

A conceptual framework adapted from Reinmoeller and van Baardwijk (2005) is proposed to investigate the argument. Our study wants to contribute to the literature on the resilience of SMEs in the context of wine industry. Furthermore it offers insights for practitioners and institutions in the field.

## 2. CONCEPTUAL FRAMEWORK

Literature concerning resilience within the context of SMEs is quite recent. The concept of resilience is applied to a wide range of disciplines but it's always representative of the capacity of an individual, an organization, a system to adapt and react to unexpected events. Management scholars investigate the resilience of SMEs to understand how enterprises face unpredictable transformations in the global scenario, like an economic crisis at industry and global level or changing in consumers' behaviour and expectations.

Beside that some organizations, despite facing the same shocks in the same place, overcome these events and are able to adapt while others fail. The reaction to the "Unexpected" depends on the resilience of the firm.

Bhamra et al. (2011) based on 74 papers and corresponding definitions at firm level defined three main elements of resilience: readiness and preparedness, response and adaptation, recovery or adjustment.

Sheffi and Rice (2005) analysed how a shock impacts on the supply chain of an enterprise. A disruption can affect the performance of a firm in unpredictable ways and consequently the more a firm is resilient the more can decrease its vulnerability. A low vulnerability can be achieved working on redundancy and flexibility. Redundancy, in the sense of keeping some resources in reserve, is a common process of any resilient strategy but has limited benefits. On the other hand increasing the flexibility of the supply chain, building organic capabilities that perceive threats and quickly respond to shocks, can enforce the enterprise resilience and create competitive advantage in the market.

Chrisman et al. (2011) contributed to the entrepreneurship literature investigating the resilience of family firms and the aspects of their organizational form that lead to a durable activity. Arranged marriage, long-term orientation, multitemporal perspectives, knowledge structures, innovation, social capital and social exchange are the set of characteristics and behaviours that contribute to the resilience of family firms.

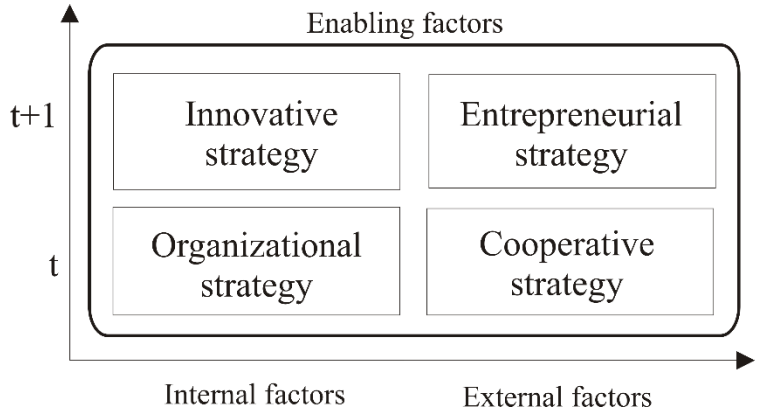
Analysing the factors that influence the resilience of SMEs, Garmestani et al. (2006) argued that the capacity of a firm to manage a disturbance and to develop new solutions it's due, at organizational level, to firm dynamics (*e.g.* size, diversity, employment variance) and at geographical level to the location and the proximity to other firms.

Gunasekaran et al. (2011) developed a conceptual framework pointing out key factors for the competitiveness and resilience of SMEs. Organizational behaviour and managerial characteristics are the internal factors that influence the quality of the final goods and services produced by the firm. Enabling factors, like new technologies, marketing competences, integrations in the supply chain, the location of the business, represent opportunities that a firm can use to strength and improve its production. External factors are identified in the globalization of the markets.

Reinmoeller et al. (2005) investigated the role of innovation strategies in the resilience of firms, trough a longitudinal multiple case study, defining resilience as "The capability to self-renew over time through innovation", identifying a set of resources that are either internal and external, already in use or being created. Authors assert that resilient companies are those that continuously adapt their behaviours to the changing environment and manage a dynamic balance of four innovation strategies: knowledge management (*i.e.* using and reusing of tacit or explicit knowledge within the firm); exploration (*i.e.* creation and recombination of existing knowledge, trough research and development activities); entrepreneurship (*i.e.* find new solutions and new resources beyond the boundaries of the firm); cooperation (*i.e.* recombination of complementary knowledge of the partners in the same industry). The key element is the diversification of strategies that lead to maximize the adaptation of the company.

Based on these premises we elaborated a conceptual framework (Figure 1) to investigate the argument, adapting the model proposed by Reinmoeller et al. (2005). Four innovation strategies are grouped, combining internal and external factors trough a temporal dimension. The time t represents the actions that are commonly in use, the time t+1 all the actions and capabilities that are deployed to create something that will be used.

The framework of innovation strategies has been integrated grouping practices according to the three typologies of factors, proposed by Gunasekaran et al. (2011), that can foster the resilience and competitiveness of SMEs. Factors are categorized as internal (*i.e.* organizational behaviour, managerial characteristics), external (*i.e.* cluster dynamics, globalization, shocks, economic crisis) and enabling (*i.e.* use of technology, generation of




capital, location and marketing, supply chain integration).

*Figure 1: conceptual framework, adaptation from Reinmoeller et al., (2005).*

The organizational strategy is pursued within the firm recombining existing knowledge (both tacit and unexplored) and human capital in the organization. The innovative phase is carried out within the firm and involves the creation of new ideas and resources. The cooperative strategy aims at sharing internal knowledge and competences with external partners in the same industry. The entrepreneurial strategy starts within the firm but goes beyond the boundaries, sharing an entrepreneurial mentality among the industry stakeholders.

Entrepreneurial activities, such as the creation of new businesses, spin offs, start-ups and external corporate venturing, are the essence of this practice.

## 3. METHODOLOGY

A longitudinal multiple case study research was carried out, adopting methods and principles proposed by Eisenhardt, (1989). According to the match pair method case studies have been chosen as polar types in which the investigated processes have been "transparently observable". Protocols were developed following Yin (2009) to aggregate data in a clear and consistent way. Qualitative and quantitative data from selected case studies were collected by multiple collection methods and analyzed through descriptive statistics and qualitative data analysis techniques, considering as interval of analysis the last decade. Primary data were obtained thanks to in depth interviews with managing directors and focus groups with experts in the field. The National Institute for Statistics, the local Chamber of Commerce and the Bureau van Diijk-Orbis datasets have been consulted for secondary data.

### 3.1 Context of analysis

In a scenario strongly influenced by competitive forces and exposed to an extremely challenging environment, innovation has become one of the key factors for the resilience and performance of wineries, especially for the old-tradition European ones.

The wine industry is worldwide characterized by fragmentation and SMEs. Especially in the century-old European contest (e.g. Italy, Spain, France, Germany) wineries are for the majority family enterprises, correlated to the territory. On the contrary new wine markets as Australia, New Zealand, South Africa, Argentina, Chile and US are structured and well-organized players in the global scenario challenging the dominance of European producers.

The Italian wine sector is an old tradition system characterized by a fragmentation of thousand of SMEs. Italy is the second wine word producer and leading exporter. The constant decreasing of domestic wine consumption has forced wineries to open to international markets. In such a context innovation processes are essential to grow and profit, but the national system it's still polarized between winemakers adhering to a traditional local market (*i.e.* low innovators) and those looking to the global markets (*i.e.* high product and marketing innovators). As opposite to the Australian system, the Italian one has weak interorganizational collaborations and networks that don't support enough local wineries. Consequently the performance of Italian organizations is more influenced by firm internal factors than external ones.

The recent conditions of the market and the need of a renewal in such a traditional and conservative industry increased the attention of management and business studies (Orth et al., 2007), especially concerning Entrepreneurship (Brown and Butler, 1995; Delacroix and Solt, 1987; Zhao, 2005), International Entrepreneurship (Lamb et al., 2011; Mariani et al., 2012), Strategic Management (Atkin et al., 2012; Porter and Bond, 1999), International Business (Kidwell and Fish, 2007) and Innovation Management (Aylward and Glynn, 2006; Dressler, 2013; Sánchez-Hernández et al., 2010) studies. A search for articles and authors evidences

also that studies carried out in Australia and in the so called “New World” markets are the broadcast area.

Studies carried out by Aylward and Glynn ( 2006) and Aylward (2002) are of particular interest and investigate how innovation processes and R&D influence the performance of firms in the Australian wine industry. Beside that Dresller (2013) explored the innovation activities of German wineries, observing a shift of innovation from production processes to services, with a decreasing centricity of the product in the industry.

### 1.1. Case studies description

Two wineries have been selected trough the match pair method and chosen as polar types. They have both a century old tradition and perfectly represent a case of resilient enterprise.

They belong to the same territory, the Oltrepò Pavese, an hilly area in the Northern Italy. This area hosts more than 1600 wineries and grape producers and represents the third biggest Italian wine district in terms of vineyards surface (13.269 hectares). From the end of WWII both wineries evolved significantly, becoming leading national players in the 80s, thanks to their sparkling white wine, from the vinification of Pinot Noir, sold as bulk or bottled. Along years they increased profits reacting to numerous unexpected events but starting from the new millennium their paths became extremely divergent.

Both wineries experienced a lock-in effect and subsequently the consequences of the domestic decreasing in wine consumptions, plus a worldwide competition from Old and New World players. One company has been able to adapt and react while the other is still experiencing a deep crisis.

## 4. FINDINGS

The key contributors to the low adaptability and resilience of the failed company can be found in the analysis of its innovative strategies. At organizational level the internal disagreement of the board and cash flow constraints stopped the development of new commercial and technological pathways. The absence of innovative and entrepreneurial strategies limited the adaptation to the external changes of the market. The focus on cooperation efforts characterized by merging and acquisitions redistributed the risk but also reduced innovation investments and increased the lock-in effect. The dependency from the local GDO distribution, in an Italian wine system that today profits more than the 50% abroad, slowed even further a rebirth phase.

On the contrary the successful company invested in technological equipments, buying new tubs and autoclaves. Quality production was increased and security and efficiency of the whole production process were emphasized. New entrepreneurial decisions focused on foreign markets were taken in place. A differentiate offering, an increasing quality production and proper marketing campaigns fostered the recovery of the firm.

Financial statistics sustain that positive trend: for the first time since 2009 the annual asset turnover ratio (*i.e*. Turnover/Total assets), that indicates the efficiency of a company to deploy its assets, has started growing again, moving from 0,85 (2013) to 0,89 (2014).

Conversely the bankrupt company still markets a regression with the lowest value ever: 0,30 (2014).

## 5. DISCUSSION AND CONCLUSIONS

This work aims at understanding how resilient SMEs adapt and react to external shocks and thanks to which practices. Based on previous studies on the resilience of organizations, we applied in the context of wine industry the framework of innovation strategies proposed by Reinmoeller and van Baardwijk (2005). The Italian wine system has not been quite investigated and recently is facing a radical innovation and technological changing. Polar case studies have been selected for their common history and development path.

The first winery is the less successful, it's still in a declining phase not finding solutions to get out of stagnation. On the contrary the second case shows a resilient enterprise that, despite faced the same issues, is now on a growing phase, increasing its resilience not only trough investments in innovation and a technological renewal but also developing adequate marketing and entrepreneurial strategies.

Findings, that have briefly resumed, suggest that a resilient company is the one that is able to employ a dynamic balance of all the four strategies, constantly self-renewing, adapting to changing environmental conditions. Focusing on one strategy, as the second company done, could lead to reduce the risk in stable times but during turbulent periods it will not foster resilience. As argued by Reinmoeller and van Baardwijk (2005) and according to evolutionary theory on strategic resilience, pursuing several different strategies increases diversity maximizing the chance of prosper adaptation. The understanding of strategic diversity is a key element in order to build resilient companies and has to be planned by managers as a long term strategy and not as instinctive reaction to unexpected shocks.

Proposed considerations may prompt winery managers to contemplate and implement responsive strategies to perceived challenges and impacts, working on building resilience. These practical strategies may also support local institutions and guidance to a more willingness to invest in the winery business, positively exploiting the strength of ties and connections, promoting policies to support enterprises.

Further studies will aim at increasing the number of case studies enhancing the contribution of the research in the field and the development of a theory on the resilience of SMEs, that is still weak.

## 6. ENDNOTES

[1] Enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro (European Commission, 2015).

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