It's a family business: Investigating organisation and values of family-owned wineries in Australia, Germany and Italy

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Abstract:

Purpose - Family businesses play a crucial role in the world wine sector. Little research has been conducted previously to investigate how organisational characteristics of wineries are influenced through family owner- and leadership of the business. This study aims to advance knowledge in this field by exploring family wineries in different wine-producing countries.

Design/methodology/approach - Qualitative semi-structured interviews have been conducted with 53 family-owned wineries in Australia, Germany and Italy. The sample shaped up by companies of different age and size. Data have been transcribed and aggregated to identify patterns within the sample.

Findings - The governance of family-owned wineries has shown great diversity among the sample. Size, country, age of the business, as well as expertise of the top management team have been identified to be key influencing variables. Implementation of governance structures has shown to become indispensable in family businesses as the company grows. Australian businesses have been found to formally address this issue. Ensuring that family values are carried through any level of the business supports governance from a social point of view.

*Practical implicat*ions - In an increasingly fast-paced business environment in the agricultural sector, implementation of governance structures can become a strategic resource and support longevity of the family businesses.

Keywords: Family business, wine, management and governance, resource-based view, familiness

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1. INTRODUCTION

Global markets have become more fast-paced and subject to a growing price pressure. In order to keep pace with these challenges, family-owned wineries, which are estimated to account for approximately 70 percent of all wine businesses (Woodfield, 2014), need to learn how to capitalise on their resources in an efficient way. Family involvement in companies can, in fact, create a unique firm-specific resource (Micelotta and Raynard, 2011), which enables firms to generate a competitive advantage over non family-owned wineries (Craig et al., 2008).

Given the high impact of family businesses in the wine sector, a better understanding of organisational characteristics and values of this type of business can help to overcome challenges these businesses face. This research intends to advance knowledge in this field by investigating the management of human resources within family-owned wineries, their values and family ties and the measures taken to ensure generational succession. These aspects are explored by comparing distinctive businesses across three different wine-producing countries, Australia, Germany and Italy. This study is the first exploratory outcome of a broader research aimed at understanding the family firm identity in the wine industry.

2. LITERATURE REVIEW

2.1. Human resource management

The management of human resources is critical for family-owned wineries (Reid et al., 2002). It is argued that the way a firm assigns roles to its employees differs among companies. Family firms may fall short in attracting and maintaining talent, due to negative preconceptions, such as limited career opportunities or nepotism. In family firms, in fact, the standing of an individual may rather be determined by what an individual „is" rather than by what an individual „does" (Lansberg, 1983).

Sharma et al. (1997) outline that looking into the management of family firms will help understanding how the influence of the family can be directed towards more productive and profitable outcomes in the business.

Structures that unite the management and ownership of firms may help to reduce agency costs. It is expected that through family ties in family firms, higher levels of loyalty and mutual trust increase horizons of managers (James, 1999). Nonetheless, this advantage also comes with additional risks when missing hierarchies cannot put governance structures in place. This effect may lead to a situation which encourages the retention of incompetent family staff while competent employees may leave the firm (De Massis et al., 2008). Schulze et al. (2001) found that unity of management of ownership in family businesses cannot eliminate the occurrence of agency costs and state that altruism and self-control are its major origins. It is essential that the firm for this reason implements internal control mechanisms in order to avoid risks that may endanger the performance of the firm (Gomez-Mejia et al., 2001). Dyer (1988, 2006) argues as well that professionalisation of the family firm is one means to avoid adverse selection in the company.

2.2. Values and family ties

Family ties emerge from relationships between family members and influence interaction characteristics inside the business system. Although family businesses have been reported to be oriented on the long run through values and family ties, monitoring mechanisms are required to reduce agency cost in a family-contracting situation (Gomez-Mejia et al., 2001). Family ties are found not only relevant inside the family as a whole, but especially within the group of family members managing the business, namely the business family. Particularly, non-family employees may become an extended part of the family through interaction with family members (Uhlaner, 2006).

A recent analysis by Fletcher et al. (2012) holds further that culture and values in the family business are an important integrating mechanism of the family and the business (management and ownership) system. Business families can be considered as specific types of teams (Uhlaner, 2006). Members share similar values and norms, and are able to resolve conflicts effectively among each other (Poutziouris et al., 2006). Less hierarchical organisational practices support this ability. Further, short-term sacrifices may be taken willingly during periods of economic downturn and members may be more willing to pursue non-financial goals (Zellweger et al., 2013). On the other hand, this fact implies that relationships of this kind may also run the risk of more conflicts due to an exchange of thought and opinion which are not only related to the firm. According to Maguire et al. (2013), familiness, as the outcome of interactions between family values and business activity, involves indexical and iconic cues in family wineries, generating credibility and authenticity; it is a point of attachment for employees and consumers.

2.3. Succession

Succession planning in family firms is a critical aspect to ensure longevity of the firm and ensure successful operation across generations. The transition of management in a firm is a very sensitive stage of the business. Transitions ideally happen gradually, but this still depends on the knowledge and ideas brought forward by the new generation. The succeeding generation can have, in fact, a very different approach about the way the business needs to be run and managed both in the short and long term. For this reason, succession will alter the perception of familiness within and outside the firm (Habbershon and Williams, 1999). However, family firms seem to struggle to cope with succession, as they lack clear mechanisms and guidelines to handle the succession process (Ibrahim et al., 2001). One important aspect from a market oriented point of view is the management of the identity of the family firm during the succession process. The internalisation and reflection of the current identity helps to assess, manage and preserve a firm's unique familiness, which is considered a crucial part that has to be approached during the process of succession. It is argued that organisational knowledge is the key to success in any business (Cabrera-Suárez et al., 2001). Looking at family businesses, relationships in the firm help to enable transfer of knowledge during a succession more effectively compared to a non-family company (Bjuggren and

Sund, 2002). Relationships between successor and predecessor are not limited to work and enable exchange beyond aspects related to the business. Also knowing the family business from early childhood on and dealing with the business also as a part of the family life may give a head start when entering the business (de Vries, 1994; Boyd and Royer, 2012).

3. METHOD AND SAMPLE

Semi-structured interviews with 53 Australian, German and Italian family-owned wineries have been conducted between February and June 2015. These interviews have been conducted with family members or non-family staff in managerial roles and lasted 30 to 60 minutes. Interviews have been recorded and transcribed afterwards. The deduction of results follows a common approach for case study research by Eisenhardt (1989).

Wineries have been selected to fall into three distinctive size groups according to their annual production: small (less than 100,000 bottles per year), medium (100,000 – 1,000,000 bottles), and large (more than 1,000,000 bottles)

The questions have been synthesised based on the literature review. The questionnaire resulted in a set of nineteen questions.

This article represents a first exploratory analysis of collected information focussing on surveyed business issues concerning organisation and values. They have been grouped in four categories for analysis purposes based on the areas of the literature presented above. Due to space limitations, it is not possible to report all the considerations that emerged from the interviews.

4. RESULTS

4.1. Structural organisation

Respondents generally agreed that among smaller businesses it is necessary to show high flexibility with respect to structural organisation. The lack of formalisation in smaller businesses appears to go hand-in-hand with high workloads across a wide set of tasks, which makes business owners struggle to make regular meetings happen. Some of the respondents in smaller businesses reported that organisational structures have not been formally defined: *"this is an area where we are letting ourselves down"* (Australian small winery). Although governance structures are not very clear among smaller firms, some divisional separation can be observed. This is particularly true for companies where family members take responsibility for business units such as viticulture, oenology and sales. In these cases, especially for small Italian wineries, females and younger members seem to be more prone to develop new marketing activities (e.g. social media communication) or business areas (e.g. hospitality). Among medium-sized businesses, the choice of organisational structures becomes more diverse compared to the previous group. Due to increasing work in the company, not all roles can be occupied by family members. However, among Italian wineries, it is commonly found that the family business is run by siblings, most commonly brothers. This happens in some German and Australian wineries; however, businesses leadership appears to be in the hands of one key figurehead. Keeping the control in the family seems to be a major concern of the families.

Among large businesses and with the implementation of formal management structures, it is found that non-family employees also acquire managerial roles in the top level of the business or in the management of wine estates located in different wine regions with broad powers of responsibility (especially for Italian large wineries). This often leads to the formation of *"formalised structures"* (Australian large winery), where the presence of a constructive board is fundamental for the management of the business. Accountability appears to become an increasing concern of the firms. In addition, *"very strong family governance systems"* are able to *"deal with the family issues that arise from time to time"* (Australian large winery).

4.2. Human resource management

4.2.1. Governance

Small family businesses do not show very clear governance structures with respect to their human resource practices. If additional staff is required to work for the winery, additional family members may be recruited in the first place. This practice can also be observed in small and medium-sized wineries. In big wineries, a dedicated role in human resource management is usually present in the business that manages staff and organises the recruitment of new members. The recruitment follows specified processes in order to achieve the accountability mentioned in 4.1: "*We are very much making sure that we have a level of accountability and level of performance review in the organisation and it doesn't matter what your surname is*" (Australian large winery).

4.2.2. Family leadership

In small and medium-sized wineries, family members find themselves in charge of leadership roles in different business sectors, such as viticulture, oenology and administration. Although this pattern is very consistently found among this type of businesses, at the same time the need to show flexibility across different sectors is underlined. Large wineries also show characteristics of family leadership. Among Australian large family wineries, much formalised structures can be found more commonly. In European firms more informal control mechanisms appear to be in place. Some Italian small wineries highlight mutual trust and involvement of non-family employees as important values for the family leadership.

4.2.3. Customer interaction

Small and medium-sized businesses families are responsible for the vast majority of the operative day-to-day business activities. While Australian wineries tend to have dedicated staff, such as a non-family cellar door manager, European wineries have been found to be more reluctant: *"Family members are at the sales front, […] my father also does the sales and he is the original personality of the business"* (German medium winery). However, a need to shift towards dedicated staff has been voiced. No matter whether family or non-family staff has been in charge of the role, personal contact was particularly highlighted by the businesses.

4.3. Transfer of values

Small businesses family members are actively involved in the individual areas of the business and interact directly with non-family employees - if present in the business - on a daily basis. In addition, a long-term relationship with employees, even with seasonal employees, has been reported to be an important component that drives the diffusion of values through all layers of the organisation. For instance, an Italian winery reports ongoing relationships with their employees for more than 35 years, another Australian chief executive states to *"have been to primary school together [...][and to] have been good friends for a very long time"* with individual employees. Knowing each other very well for a long time has also been reported to facilitate processes in the business. In large businesses, more formal governance structures are in place to ensure that family values guide the actions a business takes. Some companies consider their values to be crucial for their success and consider it a central part of their brand identity: *"In this aspect we have spent a lot of thoughts on our brand and on what we communicate. We have elaborated a brand book, which makes clear which characteristics we stand for. When we are talking about our brand we are talking about our family values. We feel very strong about being clear what values we communicate with respect to tradition in the family and also with respect to the sustainability of the business"*(German medium winery). It has to be stated that not all businesses are putting effort in communicating family values. Some businesses have attributed attention to this aspect or rely on the day-to-day involvement of the family (*"Day-to-day collaboration facilitates the sharing of values",* Italian small winery), while other companies put substantial efforts in communicating and promoting the dissemination of values in the business.

4.4. Succession

The process of succession shows a strong emotional component, particularly for small businesses. It can be clearly seen that not only the business, but also the family system is involved during this process: *"I suppose in the back of our mind, we are doing this for them"* (Australian small winery). Although children may not be forced to be involved in the business also, the succeeding generation feels a certain pressure: *"One does not want to be the one who breaks up with what others have built up before"* (German large winery). Reported experience of successions has been positive if the members of the older and younger generation can align their goals. It is reported that the pursuit to innovate the business is found in disharmony with the traditional views of the older generation. However, the lack of experience of members of the young generation also underlines the need of support of the incumbent. If the generations recognise the chances a succession offers and work hand in hand, a big transformation of the business can occur and the company can grow and diversify its activities. As the family grows bigger and enlarges across the generations, ties to the business weaken. Further, succession in agricultural environments is argued to have happened differently in the past than nowadays with respect to ownership structures. It is argued that there have been fewer options for members of the young generation in the past, while nowadays big corporations are stated to be attractive alternatives. The process of succession is strongly influenced by the size of the company and by how the operation is structured (e.g. trust structures). Especially with increasing formal knowledge in the management of businesses, it was emphasised that family members may have the right skill set to enter the family business. Among the Australian businesses it was more commonly found that the top management of a business also tends to be more open to non-family members during the succession process to drive the development of the business by its entire potential.

4.5. Future challenges

While many businesses state not to face major organisational changes in the future, a subset of companies states challenges in different areas of the business. From an organisational point of view, structural issues, particularly due to succession in the business, are stated to be key. While succession-related issues have been covered in section 4.4, human resources and managing change are two major fields that will challenge family businesses in the future.

Businesses in a growth stage – particularly small businesses – are stating that from an organisational point of view staffing is a central aspect of their future challenges. Organisational restructuring related to professionalisation are found to be a central point of medium-sized businesses in Australia: *"legal arrangement of the business, and an establishment of a constitution, which we will govern and which will provide the rules how decisions will be made"*.

Respondents argue, *"structural change in agriculture has happened so fast during the last years" (*German medium winery). In order to address this change, family businesses rely on younger family members that enter the business. This pattern is constantly reported by businesses which are in the phase of succession: *"The organisation will change in the future thanks to the introduction of the new family management"* (Italian medium winery).

5. DISCUSSION

It has been consistently found that several factors influence organisational structures of family-owned wineries. These are size, age of the business, managerial expertise among the management, as well as the country the business operates in.

Organisational pattern have been observed to be related to a set of variables. The size of a family business is found one of the most important factors that influences structures within the organisation. However, organisational structures have not only been influenced by this variable. The educational background of managers determines the mechanisms and governance structures in the family business. Small businesses show difficulties in implementing formal structures. This may on the one hand enable quick growth, which is also supported by the reported high level of flexibility in the business, but this initial advantage may turn into a liability, as the business grows more mature. Organisational structures show differences among the countries. Major differences can be found when considering the investigated countries from a binary perspective and classify them as the European and

Australian perspective. Businesses in the two continents find themselves embedded in a different surrounding legal framework. The business-orientation among Australian companies was more openly voiced: *"we run our business as a company"* (Australian medium winery). This is in line with the finding of a generally higher degree of formalisation of processes in the firm.

The organisation of the management in small and medium sized businesses has shown to belong exclusively to family members. This is partly due to the size of the business, which does not require extra workforce for this type of activity. However, adverse selection and retention of unsuitable members (nepotism) in the business can rebound on the organisation.

Smaller as well as younger businesses show that values are rather transferred by implication, such as through working along with family members. This practice might not be effective as such to ensure the transfer of family values in the business. This finding has to be highlighted especially as respondents consider their *"family story [...] a potent competitive advantage"* (Australian medium winery). Especially as the family business grows, ensuring that family values are carried through any level of the business can support governance from a social point of view.

The succession process in small and medium businesses has shown a high degree of emotional involvement. Family ties have been reported to help the succeeding generation to settle in their role and help to overcome inexperience of young members. Planning the succession in a structured way was only reported by few small and medium businesses. However, older small family businesses or businesses where the family members had managerial experience from outside the business, showed that succession planning can also be found among smaller businesses.

5. CONCLUSIONS

This research investigated the role of structural organisation in family firms in the world wine sector. From an organisational viewpoint, implementation of governance structures has shown to become indispensable in family businesses as the company grows. It cannot be encouraged that firms rely on informal governance of the business through family ties. In fact, family ties are an important element in the early stage of the business but their effect is found to change over time. As succeeding generations enter the business, formal governance mechanisms can support longevity of the family firm. Primarily Australian businesses have been found to formally address this issue. Managerial expertise did show a positive influence in finding stable organisational structures. If this organisational knowledge is not present in the company, external advice can support this process. Major transformations of the agricultural sector will underscore the need for solid structural organisation of family-owned wineries to ensure longevity of the businesses.

5.1. Limitations

As in deductive research, the propositions we state fit well with the evidence, but did not perfectly explain the cases on an individual basis (Eisenhardt and Bourgeois, 1988). Another limitation can be seen in the fact that only a limited amount of time was spent with the businesses and only reported behaviour could be considered.

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