Network strategy in the New Zealand wine industry: how firms in an industry understand and use their business relationships

Maureen Benson-Rea

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Abstract

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This theory-building study offers new theoretical explanations for how and why companies within a case industry use relationships in their strategies. Using qualitative data from multiple case studies within the New Zealand wine industry, the thesis captures and explains the strategic heterogeneity of diverse patterns of relationships and network interactions and how these are used strategically. Drawing on strategic management and business network theory, it emphasises how firms value their relationships in strategy, that is, how they contribute to strategy formation process and realisation outcomes. The study builds new interpretations and extends theory through in-depth exploration, providing two extensive typologies of relationships, one categorised according to the range of relationships, their functions, content and contribution to strategy, and another according to strategies and how relationships are used in their realisation. A model of relationship drivers in strategy is then developed, tested, and refined to show the purposes and outcomes of relationships and clarify the processes and conditions under which they arise and are used within an industry. The data support converging assumptions in strategic management and business network theory on the connectedness of firms in business relationships and the embeddedness of economic action in ongoing ties within social structures. Concepts of intentionality and emergence are used to show that emergence primarily arises out of intentionality.

Understanding of relationships was based on the historically collective nature of the industry, on personal values, experience or approaches to relationships, on firm level strategy, especially decisions around grow, buy or connect options, and whether the firm aimed to control resources and activities internally or used relationships to achieve strategic goals. Firms focused on (in order of priority): resource-based input requirements, activity-based capability related strategies and actor-based values and these inputs operated at three levels which, singly or in combination, drove the diverse use of relationships: firm level strategy influences, relationship level influences and industry environment level influences. Two frameworks emerge which have strong explanatory power. One models how firms understanding and value placed on relationships is integrated into strategy processes. Another integrates concepts in a new way to show the main pathways through ways of understanding relationship development and use in strategy.

This thesis is dedicated to the cherished memory of

John Harrison Rea BA (Cant) MA (Lanc)

14 October 1952 – 22 May 1998

and to our sons

Jack and Harry

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Table of contents

Title page i
Abstract ii
Dedication iii
Acknowledgements iv
Table of contents v
List of diagrams and tables x
CHAPTER 1: INTRODUCTION AND OVERVIEW 1
1.1 Introduction 1
1.2 Background 3
1.3 Research Objectives and Questions 5
1.4 Methodology and Research Design 8
1.4.1 Theoretical approach to the research 9
1.4.2 Stage 1 method 10
1.4.3 Stage 2 method 11
1.5 Structure of the Thesis 11
1.6 Literature and key concepts 12
1.6.1 The industry as context for relationships and networks 12
1.6.2 Approaches to understanding strategy 13
1.6.3 Approaches to relationships in networks 15
1.6.4 Combining strategy and relationships in this research 17
1.7 Delimitations 18
1.8 Chapter Summary and Conclusions 19
CHAPTER 2: LITERATURE REVIEW AND THEORETICAL SYNTHESIS 21
2.1 Introduction 21
2.1.1 Embeddedness 23
2.1.2 Convergence of social and economic views 24
2.2 Industry as the context for relationships and strategy 26
2.2.1 Industry boundaries 26
2.2.2 Economic views of industry boundaries 27
2.2.3 Market based views of industries 28
2.2.4 Managerial perceptions of an industry 30
2.2.5 A dynamic view of industry 31
2.2.6 Industries as social systems 32
2.2.7 Industries as geographical clusters 34
2.3 Approaches to Understanding Strategy 37
2.3.1 Overview and the 'Classical' view of strategy 37
2.3.2 The Resource-Based View of strategy 41
2.3.3 The Dynamic Capabilities View of strategy 42
2.3.4 A relational view of strategy 44
2.3.5 Recent views of strategy 44
2.4 Approaches to Relationships and Networks 46
2.4.1 Defining relationships and networks 47
2.4.2 General characteristics of relationships and networks 51
2.4.3 Formation of relationships and networks 53
2.4.3.1 Trust 53
2.4.3.2 Partners 53
2.4.3.3 Motivations 55
2.4.4 Performance and functions of relationships and networks 57
2.4.5 Change in relationships and networks 60
2.4.6 Why firms may not cooperate and problems with cooperation 62
2.5 Combining strategy and relationships in this research 67
2.5.1 Converging areas 68
2.5.2 Intentionality and emergence 69
2.5.3 Value creation 70
2.5.3.1 Value creation processes in relationships and networks 71
2.5.3.2 Assessing the value of relationships and networks 73
2.6 Chapter Summary and Conclusions 77
2.6.1 Concepts used from Section 2.2 on the industry context 77
2.6.2 Concepts used from Section 2.3 on approaches to strategy 78
2.6.3 Concepts used from Section 2.4 on relationships and networks 78

2.6.4 Concepts used from Section 2.5 on integrating themes 79
CHAPTER 3: METHODOLOGY AND RESEARCH DESIGN 81
3.1 Introduction 81
3.2 Philosophical Approach of this Study 82
3.2.1 Use of Qualitative Methodology 84
3.2.2 Theory Building in this Study 86
3.2.3 The Case Study Method 89
3.2.4 The Role Of The Researcher 91
3.3 Research Design 91
3.3.1 The Three Domains of the Research 94
3.3.2 The Importance of Context 95
3.3.3 The New Zealand Wine Industry 97
3.3.4 Case Company Selection 101
3.3.4.1 Stage One 103
3.3.4.2 Stage Two 104
3.4 Research Method and Procedures 106
3.4.1 Data Collection Procedures 106
3.4.2 Interview Techniques 109
3.4.3 The Interviews 110
3.4.4 Sources of Bias and Ethical Consideration 111
3.4.5 Data Analysis 112
3.4.6 Data Analysis Procedures 113
3.4.6.1 Cleaning up the Raw Data 113
3.4.6.2 Cleaned Up Data 114
3.4.6.3 Coding The Data 116
3.4.6.4 Data Reduction 118
3.4.6.5 Narrative Analysis 118
3.4.6.6 Procedures For Across Case Analysis 119
3.5 Validity and Limitations of This Study 120
Sampling Procedures 121
Coding 121
3.5.1 Sources of bias 121
The interviewer 121
The interviewees 122
The setting 122
5.6.3 Issues of validity 123
Fit 124
Understanding 124
Generality 124
Control 124
3.6 Chapter Summary and Conclusions 124
CHAPTER 4: DATA ANALYSIS 127
4.1 Introduction 127
4.2 Exploratory Stage: Within Case Data 128
4.2.1 Data Overview 129
4.2.2 Case #2 131
The company 131
Company strategy 131
Key Relationships 131
Industry context 134
1. *The Founding Families* 136
2. *Industry co-operation* 136
3. *Company change* 136
Case #2 Summary 137
4.2.3 Case #3 137
The company 137
Company strategy 138
Key Relationships 138
Industry context 140
1. *The 1960s Group* 142
2. *Wine industry politics* 142
3. *The hard business lesson* 142
Case #3 Summary 143

4.2.4 Case #4 143
The company 143
Company strategy 143
Key Relationships 144
Industry context 146
1. The wine-tasting group 147
2. The glass monopoly 148
3. Adventurous packaging imports 148
Case #4 Summary 148
4.2.5 Case #5 149
The company 149
Company strategy 149
Key Relationships 149
Industry context 151
1. Grape growers who 'play fair' 152
2. Informality and sociability 152
3. Non-joiners or us and them 152
Case #5 Summary 153
4.2.6 Case #6 153
The company 153
Company strategy 153
Key Relationships 153
Industry context 156
1. Dark night in Gisborne 157
2. No more free help 157
3. Equal treatment 157
Case #6 Summary 157
4.2.7 Case #7 158
The company 158
Company strategy 158
Key Relationships 159
Industry context 161
1. Stability in relationships 161
2. Choosing and Planning 161
3. Ideology? 161
Case #7 Summary 162
4.2.8 Case #8 162
The company 162
Company strategy 162
Key Relationships 163
Industry context 165
1. Chopping and Changing 166
2. Poor quality new entrants 166
3. Better People 166
Case #8 Summary 167
4.2.9 Case #9 167
The company 167
Company strategy 167
Key Relationships 168
Industry context 170
1. Newco: forming a new company 171
2. What to grow? - advising growers 171
3. The state of the nation - an overview of the industry 171
Case #9 Summary 173
4.2.10 Case #10 173
The company 173
Company strategy 174
Key Relationships 174
Industry context 177
1. Regional Leader 177
2. Forward integration 177
3. Self-sufficiency 177
Case #10 Summary 178

4.2.11 Case #11 178
The company 178
Company strategy 179
Key Relationships 179
Industry context 182
1. New Entrants 182
2. Contract winemaking 182
3. Personal contact 183
Case #11 Summary 183
4.2.12 Case #12 184
The company 184
Company strategy 184
Key Relationships 184
Industry context 189
1. Don't believe the hype 190
2. What we've done for them 190
3. Industrial scale production 190
Case #12 Summary 191
4.2.13 Case #13 191
The company 191
Company strategy 192
Key Relationships 192
Industry context 194
1. Parent/subsidiary relations 194
2. "Exports are quite confusing" 194
3. Grower relationships 194
Case #13 Summary 195
4.2.14 Case #14 195
The company 195
Company strategy 196
Key Relationships 196
Industry context 198
1. International ownership 199
2. Paddock to World recognition 199
3. Few personal links 199
Case #14 Summary 200
4.2.15 Case #15 200
The company 200
Company strategy 201
Key Relationships 201
Industry context 204
1. Not much co-operation 205
2. Visitors 205
3. Central control 205
Case #15 Summary 206
4.2.16 Case #16 206
The company 206
Company strategy 206
Key Relationships 206
Industry context 210
1. Purely social 210
2. Growers' freedom 210
3. Balanced supply 210
Case #16 Summary 211
4.2.17 Case #17 211
The company 211
Company strategy 212
Key Relationships 212
Industry context 215
1. No contractual loyalty 215
2. Wine culture 216
3. Network enthusiasm 216
Case #17 Summary 216

4.2.18 Within case conclusions ... 217
4.3 Exploratory Stage: Across Case Data ... 222
4.3.1 Overview of relationships and strategies ... 224
4.3.2 The companies and their strategies ... 224
4.3.3 The nature and functions of relationships ... 225
4.3.4 Relationships levels and outcomes ... 234
Macro, environment level ... 234
Meso, relationships/dyads level ... 235
Micro, firm level ... 237
4.3.5 Links between relationships and strategy in the wine industry ... 237
Resources ... 237
Activities ... 238
Actor Values ... 238
4.3.6 Conclusions to Stage 1 ... 239
4.4 From Stage 1 Findings to Stage 2 Data ... 240
4.5 Confirmatory Stage: Within Case Data ... 243
4.5.1 Procedures for Stage 2 within case analysis ... 243
4.5.2 Case # 1 ... 243
4.5.3 Case #2 ... 245
4.5.4 Case #4 ... 247
4.5.5 Case #7 ... 249
4.5.6 Case #8 ... 250
4.5.7 Case #9 ... 252
4.5.8 Case #10 ... 253
4.5.9 Case #14 ... 254
4.6 Confirmatory Stage: Across Case Data ... 256
4.6.1 Change between T1 and T2 ... 257
4.6.2 Conclusions on the model ... 260
4.7 Conclusions on the research questions ... 262
Research question 1 ... 262
Research question 2 ... 262
Research question 3 ... 263
4.8 Chapter Summary and Conclusions ... 263
CHAPTER 5 DISCUSSION AND CONCLUSIONS ... 265
5.1 Introduction ... 265
5.2 Relating the findings to the literature ... 265
5.2.1 Industry as the context for relationships and strategy ... 265
5.2.2 Approaches to understanding strategy ... 268
5.2.3 Approaches to relationships and networks ... 269
5.3 Discussion and conclusions on the research questions ... 271
5.3.1 Research question 1 ... 272
5.3.2 Research question 2 ... 272
5.3.3 Research question 3 ... 273
5.4 Conclusions on the research objectives ... 273
5.4.1 Research objective 1 ... 273
5.4.2 Research objective 2 ... 274
5.5 Contributions ... 275
5.5.1 Contribution to Theory ... 275
5.5.1.1 Integrating Strategy and Relationship Concepts ... 276
5.5.1.2 Firm Understanding and Use of Relationships in Strategys ... 278
5.5.2 Contribution to the New Zealand wine industry ... 280
5.5.3 Contribution to Method ... 281
5.6 Implications and further research ... 282
5.6.1 Method ... 282
5.6.2 Theory Development ... 282
5.6.3 Industry studies ... 283
5.6.4 Implications For Managers ... 284
5.6.5 Implications For Policy And Practice ... 285
5.7 Overall Conclusions ... 285
Appendices ... 287
References ... 319

List of diagrams and tables

Diagram 1.1: Conceptual Model Of The Research 3
Diagram 1.2: Classification Of Research Domains 9
Diagram 1.3: Theoretical Approach Of This Research 9
Diagram 1.4: Structure Of The Thesis 12
Diagram 2.1: Influences On Organisational Culture 40
Diagram 2.2: The R-A-A Elements 51
Diagram 2.3: R-A-A In Relationships And Networks 51
Diagram 2.4: Relations Between Value Creation, Dependence, Commitment, Connection 61
Diagram 2.5: Possible Causes Of Internalisation 64
Diagram 2.6: Conceptual Approach To The Research 68
Diagram 2.7: Nested Levels Of Firm Interaction 79
Diagram 3.1: Design Of The Research 82
Diagram 3.2: Positioning The Research Strategy 83
Diagram 3.3: Case Study Design Options 90
Diagram 3.4: First Stage Nud*ist Coding Procedures 117
Diagram 3.5: Across Case Analysis 119
Diagram 4.1: Time Periods And Levels Of Analysis In This Study 128
Diagram 4.2: Stage 1 Levels Of Strategy And Relationship Analysis 130
Diagram 4.3: Potential Drivers Of Relationship Use In Strategy 242
Diagram 4.4: Firm Understanding And Use Of Relationships In Strategy 263
Diagram 5.1: How Intentionality and Emergence Are Linked 270
Diagram 5.2: Conceptual Model of the Research 272
Diagram 5.3: Integrating Strategy And Relationship Concepts 277
Diagram 5.4: Firm Understanding And Use Of Relationships In Strategy 278

Table 2.1: Strategic Groups Research Examples 29
Table 3.1: Characteristics Of Qualitative Research And Their Use In This Study 87
Table 3.2: "Scientific Rigor" And This Case Study Research 93
Table 3.3: Bhaskar's Domains Applied To The Present Study 95
Table 3.4: Key Indicators Of The New Zealand Wine Industry 97
Table 3.5: New Zealand Wine Institute (WINZ) Membership 2000 102
Table 3.6: WINZ Membership 2000 by Region 102
Table 3.7: Stage One Sample Firm Characteristics 103
Table 3.8: Stage Two Sample Firm Characteristics 105
Table 3.9: Sources Of Data For This Study, Collection Methods And Justification 107
Table 3.10: Stage 1 Interviews 110
Table 3.11: Stage 2 Interviews 110
Table 3.12: Stage 1 Analytical Procedures 114
Table 3.13: Text Unit Size 115
Table 3.14: Summary Of Data Collected In Stage 1 115
Table 3.15: Summary Of Data Collected In Stage 2 116
Table 4.1: Data Presentation For Stage 1 129
Table 4.2.2.1: The Nature And Functions Of Winery #2's Relationships 134
Table 4.2.2.2: Relationship Levels And Outcomes For Winery #2 137
Table 4.2.3.1: The Nature And Functions Of Winery #3's Relationships 140
Table 4.2.3.2: Relationship Levels And Outcomes For Winery #3 142
Table 4.2.4.1: The Nature And Functions Of Winery #4's Relationships 146
Table 4.2.4.2: Relationship Levels And Outcomes For Winery #4 148
Table 4.2.5.1: The Nature And Functions Of Winery #5's Relationships 151
Table 4.2.5.2: Relationship Levels And Outcomes For Winery #5 152
Table 4.2.6.1: The Nature And Functions Of Winery #6's Relationships 156
Table 4.2.6.2: Relationship Levels And Outcomes For Winery #6 157
Table 4.2.7.1: The Nature And Functions Of Winery #7's Relationships 160
Table 4.2.7.2: Relationship Levels And Outcomes For Winery #7 161
Table 4.2.8.1: The Nature And Functions Of Winery #8's Relationships 164
Table 4.2.8.2: Relationship Levels And Outcomes For Winery #8 166
Table 4.2.9.1: The Nature And Functions Of Winery #9's Relationships 169
Table 4.2.9.2: Relationship Levels And Outcomes For Winery #9 172
Table 4.2.10.1: The Nature And Functions Of Winery #10's Relationships 176
Table 4.2.10.2: Relationship Levels And Outcomes For Winery #10 178
Table 4.2.11.1: The Nature And Function Of Winery #11's Relationships 181

Table 4.2.11.2: Relationship Levels And Outcomes For Winery #11 ... 183
Table 4.2.12.1: The Nature And Functions Of Winery #12's Relationships ... 188
Table 4.2.12.2: Relationship Levels And Outcomes For Winery #12 ... 190
Table 4.2.13.1: The Nature And Functions Of Winery #13's Relationships ... 193
Table 4.2.13.2: Relationship Levels And Outcomes For Winery #13 ... 194
Table 4.2.14.1: The Nature And Functions Of Winery #14's Relationships ... 198
Table 4.2.14.2: Relationship Levels And Outcomes For Winery #14 ... 200
Table 4.2.15.1: The Nature And Functions Of Winery #15's Relationships ... 204
Table 4.2.15.2: Relationship Levels And Outcomes For Winery #15 ... 205
Table 4.2.16.1: The Nature And Functions Of Winery #16's Relationships ... 209
Table 4.2.16.2: Relationship Levels And Outcomes For Winery #16 ... 210
Table 4.2.17.1: The Nature And Functions Of Winery #17's Relationships ... 214
Table 4.2.17.2: Relationship Levels And Outcomes For Winery #17 ... 216
Table 4.3: Summary Of Stage 1 Within Case Strategies ... 219
Table 4.4: Importance Of Relationships As Ranked By Text Unit Count ... 222
Table 4.5: Within Case Frequency Of References To Relationship Categories ... 223
Table 4.6: A Cross-Case Relationship/Strategy Formation Typology ... 226
Table 4.7: A Cross-Case Strategy Realisation/Relationship Typology ... 229
Table 4.8 Clustering Of Relationship Functions And Their Importance ... 232
Table 4.9: Summary Of Stage 2 Data For Case # 1 ... 244
Table 4.10: Summary Of Stage 2 Data For Case # 2 ... 246
Table 4.11: Summary Of Stage 2 Data For Case # 4 ... 248
Table 4.12: Summary Of Stage 2 Data For Case # 7 ... 250
Table 4.13: Summary Of Stage 2 Data For Case # 8 ... 251
Table 4.14: Summary Of Stage 2 Data For Case # 9 ... 252
Table 4.15: Summary Of Stage 2 Data For Case # 10 ... 254
Table 4.16: Summary Of Stage 2 Data For Case # 14 ... 255
Table 4.17: Summary Of Stage 2 Relationship Driver Rankings ... 256
Table 4.18: Changes In Predominant Relationship Approaches ... 260
Table 4.19: Stage 2 Strategies And Focus Of Relationships ... 261

Chapter 1: Introduction and Overview

1.1 Introduction

This chapter provides an introduction to the thesis, gives an overview of the approach taken and sets out its structure. It gives a description of the general research area and the specific research objectives and questions the thesis addresses. The chapter also deals with why the topic is important, prior research in the area, summarises the study's contribution and why it is of relevance to management theory and practice. The objectives of this chapter are:

- To introduce the thesis and its research objectives and questions;
- To give an overview of its theoretical and empirical approaches;
- To justify the topic, its execution and findings.

There is a substantial body of prior research in the areas of business networks (particularly on issues of structure, formation, motivations, functions and processes), of strategy formation and implementation (around issues of content, processes and styles) and evaluation (focusing on processes and models). Where little work has been identified is in the common ground between these: in the contextual factors, both internal to the firm and external, that influence and shape the way in which an organisation comes to pursue a particular strategy in the context of its networks of relationships.

Focal theory for the study is taken from the strategic management and business networks literatures as, within the business management discipline, these are the areas in which most attention is paid to these concerns. This is outlined in Section 1.6. Background theory provides two important themes underpinning developments in both bodies of literature which is bringing them together and which are highly relevant to relationships and networks in strategy. These are, the concepts of embeddedness - in which business is seen as a social process the firm operates in an embedded social context (Baum and Dutton 1996; Gnyawali and Madhavan 2001; Grandori 1999; Granovetter 1985; Halinen and Törnroos 1998; Sydow and Windeler 1998; Uzzi 1996; Uzzi 1997), and the related issue of the convergence of economic and social analyses of business behaviour (Granovetter 1993; Granovetter 1994; Sabel 1993; Smelser and Swedberg 1994; Swedberg 1993). The connectedness of firms in business relationships is a key underlying assumption in this study as is the view that "Economic action is embedded in social structure…in ongoing social ties", (Uzzi 1997:35) and is:

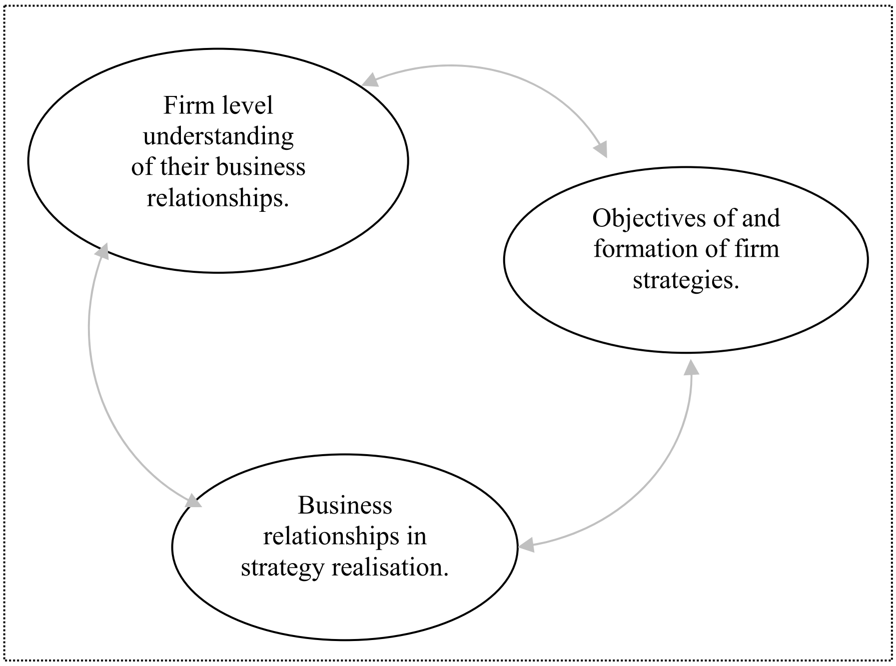
> a concept that has been used to refer broadly to the contingent nature of economic action with respect to cognition, social structure, institutions, and culture (ibid:36).

The social and the economic co-exist as drivers of firm strategy but the rationality assumed in economics, and hence in much of the strategic management literature, needs to be tempered by more focus on the social (Granovetter 1993; Swedberg 1993; Uzzi 1996). Firms or organisations are 'the context in which social relations and economic exchange are embedded' (Ghoshal and Moran 1996). Whilst the economic or the social may co-exist or predominate in the analysis of strategy, and thus in the analysis of interfirm co-operation and relationships, firm behaviour exhibits both simultaneously. Economics and sociology are coming increasingly close in their issues and concerns (Baron and Hannan 1994; Granovetter 1993; Granovetter and Swedberg 1992; Swedberg 1990; 1993; White 2002). Granovetter (1993) and Swedberg (1993) both assert the need for a mix of economic and social analyses. This thesis responds to this convergence: business relationships based on sentiment are as valid as those based on economic value (Easton and Araujo 1994). These two areas of background theory inform both strategic management and business network theory and hence this study.

An industry study is used because industries provides a common context for strategy (Heugens 2003; Porter 1998; Sutcliffe and Huber 1998; Whittington 1988) and enable us to hold some environmental conditions constant. The data and findings reported in Chapters 4 and 5 are thus conditional on the industry context. The New Zealand wine industry was chosen as a research setting as it exhibited a mix of collaboration, cooperation and competition (Benson-Rea and Wilson 1994; Khanna, Gulati et al. 1998; Oliver 2004). An industry study also addresses the broader question for both theory and practice of how to explain the strategic diversity and the origins of competitive heterogeneity within an industry (Miller 2003).

This research takes a case study approach to theory-building (Bonoma 1985; Dubois and Gadde 2002; Easton 1995a; Eisenhardt 1989; Woodside and Wilson 2003; Yin 1984) firstly to explore and define the nature of linkages and relationships within an industry, and secondly to test an emergent model of drivers of relationship use in strategy. Two theoretical models which explain the strategic purposes and outcomes by which firms within an industry characterise and use their business relationships, both domestically and in international markets, result from the study. One model conceptualises the link between how firms understand and use their relationships in strategy and the other integrates the drivers of strategy and relationship concepts. The literature informing the study was selected to shed light on the elements of the conceptual model for the research set out in Diagram 1.1, namely, the links between firm understanding of business relationships and how firm strategy is formed; between the realisation of firm strategy and its use of business relationships; and between how a firm understands and uses its business relationships in strategy realisation. This rest of this chapter is set out as follows. Firstly, the background to the research problem is explained, followed by the research questions and the contributions this study makes. Methodology is briefly described, as is an overview of the thesis structure. Key concepts used in the study are then set out and delimitations outlined before the chapter conclusions.

Diagram 1.1: Conceptual model of the research



Note: these conceptual relationships are shown as two-way since factors influence and are the results of others.

1.2 Background

There is extensive research on business interactions, relationships and networks (Ahuja 2000; Ford, Gadde et al. 2003; Gadde, Huemer et al. 2003; Gulati and Gargiulo 1999; Gulati, Nohria et al. 2000; Hite and Hesterly 2001; Möller and Halinen 1999; Ritter, Wilkinson et al. 2004; White 2002), the motivations for entering such linkages (Ebers 1997; Kenis and Knoke 2002; Oliver 1990), the structures and processes of network formation and maintenance, relationship functions (Oliver 1990; Walter, Ritter et al. 2001) and the role of outside agents and brokers (Birley 1985; Easton 1992; Ford 1990; Ford 1997; Håkansson and Snehota 1995; Nohria and Eccles 1992). A number of studies have evaluated the impact networks can have at the level of national economic performance (Australian Bureau of Industry Economics 1991; Australian Manufacturing Council 1990; Castells 1996; Enright 1998; Porter 1990; Porter 1998), and to identify benefits to firms in general (Burt 1992; Grandori 1999; Håkansson and Snehota 1989; Perrow 1986; Thorelli 1986). The processes involved in the decision to enter cooperative network relationships have been examined from a network point of view (Child and Faulkner 1998; Easton 1992; Ford 1990; Gelsing 1993; Håkansson and Johanson 1990; Håkansson and Snehota 1989; Håkansson and Snehota 1995; Johanson and Mattsson 1985; Juettner 1995) and from a strategic management perspective (Ahuja 2000; Baum and Dutton 1996; Danneels 2003; Gulati, Nohria et al. 2000; Helfat and Peteraf 2003; Hitt and Tyler 1991; Madhavan, Koka et al. 1998; McEvily and Zaheer 1999). How firms use and evaluate these strategies, implement them, how they assess their value and how these processes are interlinked, are issues which have been largely overlooked, with some notable exceptions (Kay 1993; Srivastava, Shervani et al. 1998; Srivastava, Shervani et al. 1999; Sydow, van Well et al. 1998; Sydow and Windeler 1998; Walter, Ritter et al. 2001).

The strategic management literature calls for more studies of strategy content and process set within contexts and for contingent explanations of strategy. In strategy research few developmental studies of strategy formulation and implementation have been carried out, particularly from the manager's perspective (Van de Ven 1992). Huff and Reger (1987) advocate more studies which look at strategy formulation and implementation simultaneously and also studies which consider content as well as process (Huff and Reger 1987):

> There is a great need for process researchers to consider the content of strategies. The nature of process is sensitive to the subject being considered, the industry within which the decision is being made, and the history and anticipated future of other decisions (ibid:226).

This research attempts to address these knowledge gaps by investigating the linkages between the factors which influence firms' use of relationship or network strategies and those they use to assess the strategies, and how this process of evaluation contributes to strategy processes and outcomes. It does so in the context of multiple case studies within the New Zealand wine industry. Increasingly business network research focuses on how firms evaluate their interfirm linkages and balance the portfolios of relationships in which they invest. Evaluation tools which aim to assist managerial assessment and decision-making in the area of business relationships are emerging (Ford, McDowell et al. 1995; Srivastava, Shervani et al. 1998; Sydow and Windeler 1998). How and why cooperation arises in particular industries rather than others is an area of keen research interest (Axelrod 1984; Browning, Beyer et al. 1995; Ring and Van De Ven 1992; Trice and Beyer 1993), although comparative, cross-industry studies may not be the most useful in identifying causation factors. The contingent context is an especially powerful foundation (Easton 1995a) and this research rests on the notion that specific industry level studies can contribute to an understanding of what factors cause events in particular contexts. Calton makes the point that:

> adopting a network perspective ... means adopting a different intellectual lens and discipline, gathering different kinds of data, learning new analytical and methodological techniques, and seeking explanations that are quite different from conventional ones (Calton 1995).

The focus of this study is on the firm, not the network itself. The common factor in the use of relationships in strategy is that, whether firms *have* networks or are *in* networks, in both approaches a relationship may be available to the firm as a latent capability. The key issue then becomes how or to what degree the firm uses it. Whatever theoretical lens is used to understand firm behaviour in networks, what is important in this research is how the firms view it themselves.

1.3 Research Objectives and Questions

A full review of the relevant literature and the concepts used in this research is given in Chapter 2. The key objective of this study is to explain how firms understand their networks of business relationships and how they use them in forming and realising their strategies. In terms of firm strategy, the research is motivated to explain what firms think they are doing with their business relationships (if they have them) and what value they think they are getting out of them (if any). The research adds to understanding of how firms evaluate business relationships and linkages and explains the interaction between internal and external drivers of business relationships. All firms have relationships with other firms and organisations but some make more intentional use of these in their strategies than others. Managers in firms may not always be aware of how they use or could use their business relationships when they formulate their strategies. In managerial terms, the research aims to help managers to become more aware of this. The present study makes "a distinct contribution to a body of knowledge through an original investigation" (Perry 2000) by bringing together two bodies of literature, strategic management and business networks. It does this through the following objectives:

1. To explain how firms in one industry understand, evaluate and use their networks of business relationships in formulating and realising their strategies.

2. To contribute to strategic management theory (SMT) by linking strategy content and process in the context of business relationships.

These objectives are addressed in this thesis through three interlinked research questions:

1. How do individual firms within the New Zealand wine industry understand their business relationships?

2. How does firm understanding of business relationships in this industry affect how they are used in strategy formation and realisation or not?

3. What explains the link, if any, between understanding of business relationships and their use in strategy?

Studies such as this one may make a contribution to knowledge in a number of areas, based on an element of originality, and this may take the form of a contribution to theory, method or data (Perry 2000; Phillips and Pugh 1987). This study makes contributions to theory and practice in the three areas: to theory, in both strategic management and business networks; to practice, in terms of managing business relationships and to social and economic development, in terms of understanding the wider ramifications of the activities of business organisations; and to data, in terms of an industry study since there are few studies which are informed by in-depth data from key informants across entire strata of a national industry. The firms within the industry are not sampled in stage one of the reported research: the interview firms form a census of all firms within the large and medium-sized categories of the New Zealand wine industry. Whilst many New Zealand studies have been made of the wine industry (Barker, Lewis et al. 2001; Beverland and Baker 1999; Lewis 2001; Lindgreen 2001; Mabbett 1998; Moran 2001), and some have looked at relationships within the industry (Beverland and Lindgreen 2001; Lindgreen 2001), none has taken the approach of combining strategic management and the study of networks within the industry.

The literature reveals that there are gaps in understanding the influences on strategic decision-making involved in the use of cooperative network relationships, how firms evaluate these strategies, and how these processes are interlinked. Gomes-Casseres makes the point that too little empirical evidence exists as yet to answer the questions of whether alliance groups are simply a management fad or, more importantly, whether they have actually helped group members to compete more effectively (1994). This study adds to understanding of the role and usefulness of network strategies in general, and contributes to understanding the organisational variables which have an influence on these key decision-making processes. Lipparini and Sobrero (1994) recommend:

> further studies to address the question of how internally determined, rather than spontaneous, is the evolution toward a network structure in sets of SMEs (ibid:14).

In the wider theoretical context, this research brings together similar concerns in two bodies of theory, strategic management and business networks. Larson (1991) suggests that:

> carefully selected and managed networks are a strategic necessity for entrepreneurial companies and that this topic needs more research attention (ibid:187)

This research contributes to showing the balance in both disciplines of intentional planned and organic emergent approaches, concluding that the two are not dichotomous and that emergence arises out of intentionality.

Understanding business networks is important in a number of ways. In terms of strategic management, regardless of size, few companies have enough resources to cover all the attractive business development opportunities available to them (Kanter 1993). In economies which have been dominated by monolithic corporations, for example the USA, Korea, and Japan, companies have come under pressure from governments and international competition to break themselves up. For decades large, vertically integrated companies have reaped the benefits of their size growing stronger with every competitor they eliminated or engulfed (Johnston and Lawrence, 1988). This is no longer seen as the only desirable or effective strategy for growth. A newer organisational form, a set of independent companies that work closely together to manage the flow of goods and services along the entire value chain, is developing to challenge that monolithic role (ibid). As Miles and Snow point out:

> Movement toward the network form became apparent in the 1980s, when competition and rapid technological change forced massive restructuring...Established firms downsized to their core competence, de-layering management hierarchies and outsourcing a wide range of activities. New firms eschewed growth through vertical integration and instead sought alliances with independent suppliers and/or distributors (Miles and Snow 1992).

Much government activity, and the efforts of other external facilitators of the process of network formation, has also gone into encouraging the establishment of business networks among SMEs in many parts of the world. Research that shows the real value to firms which may arise from the effort and culture change which such induced network strategies may entail is still required and the distinction between intentional and naturally occurring networks is opaque. The findings of this study are thus potentially useful to public policy makers who need to be aware of the reasons why assisted programmes may or may not be successful (Australian Bureau of Industry Economics 1991), and whether they merit their allocation of scarce public resources. They are also useful for companies which may be considering network involvement but may be unsure of how the organisation could benefit and for managers who need to be aware of their strategic outcomes and how to balance their portfolios of relationships.

Finally, for the case industry, players will find it useful to see the range and depth of firm networks and there is a contribution here to understanding of industry dynamics and future development. The wine industry was one of the first in New Zealand to take to heart exhortations to build competitive industries through clusters and networks (Crocombe, Enright et al. 1991; Porter 1990). It has been acknowledged by the University of Auckland Wine Industry Research Institute (WIRI) and New Zealand Trade and Enterprise (Lewis and Prince 2004) that as a result of its growth and development, there is now a much greater range of interests and diversity within the New Zealand wine industry. This study shows some of the strategic characteristics of that diversity among a group of similar sized wine companies. As WIRI (2004) has pointed out, all of these wine companies face the opportunities and risks of global and domestic markets, especially in channel and brand management, building on growth and innovation and product and market research and development. Whilst it is clear from this research that the role of relationships and connections with others in the strategies of wine companies will be central to this future development, the nature of the use of such relationships will no doubt develop still further.

1.4 Methodology and Research Design

A conceptual model of the research is shown in Diagram 1.1. This depicts how the study brings together concepts from the literature on the formation process and realisation content of firm level strategy with the operation and outcomes of the firm's relationships and its networks of relationships, and how these two are in turn related to how the relationships and the outcomes are evaluated and used in firm strategy.

In terms of method, this research takes an interpretive theory-building approach to understanding how firms use networks and relationships in their strategies. It uses qualitative data gathered from multiple case studies, embedded within a single industry case design. A full discussion of the methodology and research design appears in Chapter 3. The approach taken in this study is 'weakly' constructivist (Orlikowski and Baroudi 1991), building theory by describing and re-interpreting actors' understanding of their networks and relationships. The research process here is an emergent one, in the sense that it follows a sequential process of uncovering layers of understanding. As Van Maanen points out, after Weick, qualitative researchers do not always know 'exactly what they have studied until they have written it up and passed it around' (Van Maanen 1979). Easton (1995a) makes a very forceful argument for an emphasis on network research based on the contingent context. This is a view also taken by Van Maanen, who emphasises the need to understand what the data gleaned from an informant represents in 'possible contextual meaning' (1979:50). Getting behind the merely observable or measurable is critical to understanding the forces at play within real business situations, otherwise researchers risk the problem of the positivist methodology which has been critiqued as simply 'adding more variables' (Easton 1995:387) and by the concern that, 'all we really know are the questions we ask and the answers we get' (Gardner, cited in (Churchill 1979). The research process in this study aims to understand the firm's use of networks of relationships at various levels. Tsoukas (1989) and Easton (1995) advocate Bhaskar's (1978) classification of research domains, as set out in Diagram 1.2.

Diagram 1.2: Classification of research domains

Research domain	Definition
Real domain	'independent-from-observer mechanisms which create events'
Actual domain	'where events created by the interaction of the real mechanisms appear'
Empirical domain	'where events are experienced by observers'.

Source: (Tsoukas 1989) and (Easton 1995a) based on (Bhaskar 1978).

The real domain is characterised by mechanisms which create events which appear in the actual and are experienced by observers in the empirical domain. Thus:

> explanatory idiographic studies are epistemologically valid because they are concerned with the **clarification of structures and their associated generative mechanisms**[1], which have been contingently capable of producing the observed phenomenon (Tsoukas 1989).

This classification is applied in this study to the firm and its relationship dyads and networks. The present research explores the empirical domain, describes and analyses the actual domain and builds theory which explains the processes in the real domain which result in the networks of the case firms. Details of research methods and procedures used in this study are set out in Chapter 3.

1.4.1 Theoretical approach to the research

Diagram 1.3 shows the structure of the theory development in this research.

Diagram 1.3: Theoretical approach of this research

Analyse Firms and their relationships in the industry → **Describe Industry** and its networks of relationships → **Identify Types** of relationships in firms and how used → **Develop Model** of relationship drivers in the industry → **Test Model** and refine relationships/ strategy model → **Present Model** of wine industry relationship drivers.

The research is conducted in two stages, involving face-to-face interviews with what is effectively a census of the large and medium sized New Zealand wine companies as case study companies in Stage 1, and a smaller group of theoretically sampled cases in Stage 2 (Eisenhardt 1989; Yin 1994). Carried out on a part-time basis over several years, the research is thus able to capture some elements of the longitudinal dynamics of the industry and phenomena under investigation. The first stage is an exploratory one, based on concepts from

[1] Emphasis in original

the literature, which aims to distinguish the case firms' relationships and networks and theorise about the possible reasons for the patterns of relationships and their use or non-use identified. From this a model is developed which is then tested in Stage Two of the research, in order to clarify and characterise the linkages as outcomes of strategy processes within the firms - attempting to tease out the unique firm level strategy causation of the linkages identified in Stage One. From this process a theoretical understanding evolves of the key drivers which lie behind the ways in which firms use their business relationships. The outcomes from the first stage analysis are depicted in two cross-case typologies. One (Table 4.6) shows the range of relationships, categorised according to content and role in strategy. The second (Table 4.7) shows how relationships are used in strategy realisation. From this analysis a model of relationship drivers in strategy (Diagram 4.3) is developed. This model is then tested to refine the emergent understanding of the purposes and outcomes of relationships, which, it is theorised, are explained by relationship drivers.

One of the critical factors in the research design is the importance placed on engaging the interest and involvement of the interviewees. The New Zealand business community is not unique in being heavily canvassed by an active community of researchers. Thus overtures to companies, whilst warmly received, need to engage their interest to perhaps differentiate them and in order to engage the respondents in the research it is important for them to see its relevance to them (Wong-Rieger and Rieger 1993). To overcome research problems such as the limited amount of data one can gather in any one interview without over-taxing the respondent, and to engage informants' interest, a two-stage process is used (Mazet-Crespin 1995).

1.4.2 Stage 1 method

In the exploratory Stage 1, 16 companies in the New Zealand wine industry are interviewed. These interviews were designed to:

- Establish contact with companies in the industry;
- Map out the basic structure of interactions within the industry;
- Enable an understanding of the dynamic processes within those relationships;
- Elicit the interest and involvement of companies in order to facilitate subsequent in-depth data collection.

The first stage may be seen merely as a process of collecting basic descriptive data (Harrison, 1987) but a picture emerges which clarifies some of the causal factors behind cooperative strategies within the context of this industry. A semi-structured question guide, based on concepts from the literature, is used to elicit a descriptive account of the nature and structure of relationships within the industry. These interviews are transcribed verbatim and their content analysed using the computer package Nud*ist. From the themes identified in this exploratory work a model of relationship drivers is developed. This model is tested in the second stage of the research. The key objectives at this stage of the research were:

- To understand the context of the research questions in more depth;
- To gain an initial insight into each firm's view of its relationships;
- To begin to build a research relationship with the interview and her/his company;
- To clarify constructs and variables in order to construct an inductively derived theoretical explanation of the use of relationships within the industry which could then be confirmed using a more deductive approach (Huberman and Miles 1998).

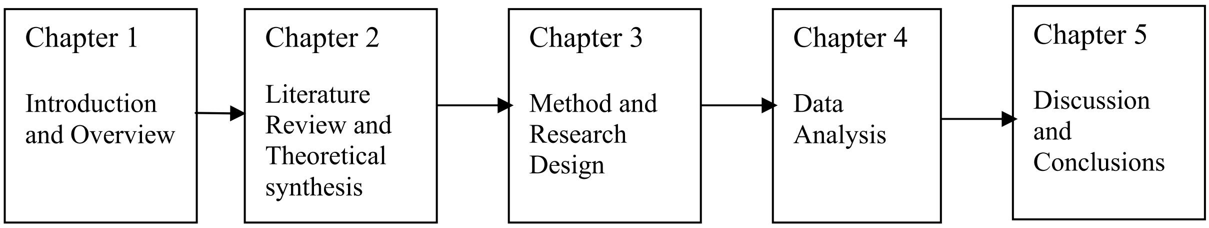
1.4.3 Stage 2 method

The confirmatory Stage 2 involves in-depth interviews with 8 wine companies selected from Stage 1, again using a semi-structured question guide, the contents of which relate to the factors identified in the emergent model (Diagram 4.3). The objective here is to test and refine an emergent theory leading to the conceptualisation of relationship drivers with which to explain how and why firms used relationships in their strategy. From Stage 1 a considerable amount was already known about each of the 16 firms' networks of key relationships. The 8 firms were selected for theoretical interest because though they had very similar characteristics in terms of size, product range, sales, market coverage and performance they were found in Stage 1 to have very different approaches to relationships and strategy. The data in each stage were collected from the head of each firm, who ranged from co-heads of family-run firms to what one might term 'professional/career' managers in Chief Executive Officer (CEO) or Chief Operating Officer (COO) positions. The aim is to seek information from the most knowledgeable, as recommended by Van Maanen (1979), but not necessarily the most candid (as he hopes) members of the studied scene. Analysis of the data is set out in Chapter 4 and discussion and conclusions in Chapter 5 of this thesis.

1.5 Structure of the Thesis

The research is reported in two stages. The structure of the thesis report is shown in Diagram 1.4 below. The present chapter gives an introduction to the topic and an overview of the research questions, contributions and the approach taken in the study. Chapter 2 goes on to review the theoretical concepts drawn from relevant business management literature which informs the research, with background and focal theory discussed, setting out definitions used in this research. Chapter 3 goes on to explain the overall methodology and the research design developed for this study, explaining the interpretive weakly constructivist approach and the case study method. Chapter 4 sets out the data analysis for each of the two stages of data collection and Chapter 5 discusses the overall research findings and draws conclusions, presenting the theoretical models developed from the research and setting out implications for research and practice.

Diagram 1.4: Structure of the thesis



1.6 Literature and key concepts

This study analyses how and why companies within an industry use relationships in their strategies. Its main field of interest is the strategic management of business organisations, with a specific focus on the management of the firm's external relationships and the use of those relationships in firm strategy. The study offers a theoretical explanation of the nature of interfirm relationships and networks and how firms use and value these relationships in their business strategies and interactions. Critical concepts and definitions from the literature are now briefly explained.

1.6.1 The industry as context for relationships and networks

Since one of the research objectives focuses on an industry, it is first important to define the industry level context for strategy, so the boundaries of industries and the behaviour of firms within industries and other groups is reviewed in Chapter 2. There are a number of theoretical perspectives on industry definition, including those from strategy, economics, organisation theory, sociology and geography. Based on the diversity of strategic boundaries of firms and the very different ways in which they interact in their competitive systems, this study integrates a number of concepts in its view of the case industry. Industry boundaries are blurring and firms may not agree on the nature of their industry and how its activities are structured. The classical and transaction cost economics (TCE) views fail to offer a complete view of the current reality of firm governance and activity structures and requires the addition of social or relational oriented elements (Ghoshal and Moran 1996; Williamson 1981). Since resources are increasingly employed *among* firms they must take into account their interactions with others in the exchange transactions and must also include dynamic market factors, not simply internal, rational control (Langlois and Robertson 1995). Organisational theory and population ecology are powerful tools for analysing patterns of birth, success and failure within co-located or strategically close groups of companies (Hannan and Carroll 1992; Hannan and Freeman 1989). The New Zealand wine industry has shown strong patterns of growth and has followed common collective processes of market development and positioning. Strategic groups can be identified among groups of firms that compete in similar ways in similar markets (McGee and Thomas 1986). How firms in an industry set their strategy is strongly influenced by how managers perceive their industry and its dynamics and an industry recipe can be identified among groups of firms (Spender 1989).

Industries are part of the social and historical network context in which economic action is embedded. Transaction and physical flows and structures in exchange are complemented by social systems within industries, which evolve reflexively: the industry shapes perceptions and behaviour among players but is also shaped by players in the industry (Biggiero 2001; Giddens 1979; Moore 1996). An industry may be seen as a complex social system, in which the rules and procedures are unannounced but norms are learnt and amended, one that may not be reduced to a simple sum of its parts and in which individuals do not have to know the roles everyone else plays nor to carry a mental map of the entire system. Finally, geography matters – location and proximity remain important in the development of an industry, in terms of resources, human and physical, learning, institutional environment, cultural conditions technological stage (Porter 1998; Saxenian 1994; Zeitlin 1989). To these concepts which identify the commonalities among the case firms are added dimensions on which they may have diverging views or perceptions: how to structure their business within their networks and relationships and how to compete and/or cooperate within the firm's value creation system (Möller and Svahn 2003; Möller and Torronen 2003; Normann 1993; Ramírez 1999) which are discussed in the next two sections.

1.6.2 Approaches to understanding strategy

The second research objective is to contribute to strategic management theory by linking strategy content and process - what is carried out and how it is achieved (Huff and Reger 1987; Lengnick-Hall and Wolff 1999; Van de Ven 1992) in the context of a firm view of its network strategy within a particular context. To understand how the case firm managers might understand and describe strategy, as strategy is formed and ultimately implemented at the firm level, the literature on firm level strategy is reviewed. The strategy section (2.3) focuses on approaches to strategy, going through the classical (planning) view of the autonomous business firm positioning itself competitively through static analysis, through the view of the firm as achieving competitive advantage through resource acquisition or leverage, the resource-based view (RBV), through to the notion of the firm as competing on unique competences or dynamic capabilities, the dynamic capabilities view (DCV) and to some more recent views of complexity and hyper-competition, and relates them to how they are used in this study (Barney 1991; Barney 1999; D'Aveni 1995; Eisenhardt and Martin 2000; Eisenhardt and Schoonhaven 1996; Eisenhardt and Sull 2001; Helfat and Peteraf 2003; Wernerfelt 1984). The key underlying concepts here are views of firms as: atomistically positioning themselves competitively in the classical, Porterian view; through firms competing on the basis of resources; through to the analysis of firms which compete on dynamic capabilities, which can include relationally based competences. Many concepts of strategy process within the classical school remain valid as analytical frameworks but approaches to the content and context for strategy are changing from an atomistic to an embedded view of firms, and from a rational, calculative, intentional view of strategy in a stable or static environment to more recognition of ‘gut-feel’, simple rules, creativity and emergence in dynamic turbulent international environments. These more relational views of strategy are linked to network theory in Section 2.5.

This study does not select one approach to strategy as more valid than the others but uses a number of common concepts from across the strategy literature. There remains a debate in the strategy literature on the balance between intentionality and deliberate enactment of strategy and its emergence and realisation. These two notions are used to conceptualise broad processes of strategy formation as they are paralleled in the business networks literature and are thus important converging themes in the two bodies of theory. The study takes the influence of the organisational-personal, industry and environmental contexts on strategy processes and content very much into account and is informed by the idea that these are expressed in the beliefs and values of firms as well as in their strategies and how they achieve them through resources, skills and capabilities. From the RBV, firms compete on unique resources, which may or may not be obtained from external interactions. Resources, and how critical these are, and where firms obtain them are thus identified for the case firms. From the DCV, firms compete on both internal and external resources and capabilities. Activities and capabilities acquisition are also identified for the case firms, again assessing their criticality in strategy. An emerging relational view of strategy sees firms adding relationships to their portfolio of skills, knowledge and resources, and this supports the focus on whether and how relationships are used in securing resources and capabilities.

In bringing together strategy content (what the firms actually did) and process (the influences on their strategies) the literature is unclear as to the balance in reality between the intentional and the emergent: what firms achieve in an intentional way and what emerged. The strategy literature is taking on more relational approaches (Ahuja 2000; Gulati 1998; Gulati, Nohria et al. 2000) and, as is shown in the next section, the literature on relationships and networks is taking on more strategic intentionality in the management of these linkages (Ford, Gadde et al. 2003; Gadde, Huemer et al. 2003; Möller and Svahn 2003).

1.6.3 Approaches to relationships in networks

In order to characterise how and why firms might use relationship-based approaches, the section on relationships and networks (2.4) focuses on definitions of, and understanding the formation and functions of business relationships, and the ways in which firms are connected and their activities interrelated in networks of relationships. The phenomenon under investigation is how firms use and evaluate their business relationships in formulating and implementing their strategies. An increasing number of researchers in the general field of what may be called ‘interfirm collaboration’ are calling for clarity in the use of terminology (Easton 1992; Easton and Araujo 1993; Ebers 1997; Ebers 1999; Gordon 1996). Many researchers begin their examination of the subject with an attempt to produce a categorisation of relationships as defined by a number of dimensions. The need for this clarity may be on the part of researchers rather than practitioners and is understandable in a field which is still seeking to define itself and the locus in which a theory of firm interaction may emerge. Definitions of the phenomena under investigation used in this study are set out comprehensively in Chapter 2. However, it is arguably more important to understand how firms *themselves* distinguish between the different types of relationship in which they are involved, if indeed they *do* make such distinctions, and this is the approach taken to the empirical data collected for the study. In terms of defining a network of relationships, Perrow offers a wide remit:

> The investigator chooses how to measure the degree of interaction between any two organisations, so it is she who constructs the network to show the density of various parts (Perrow 1986).

Some preliminary definitional issues are now discussed briefly to enable the reader to position the study.

In network research there is a distinction between the descriptive, explanatory and normative, and in terms of methodology between using networks as a metaphor - using qualitative approaches to describe and explain network structures and processes - and networks as a tool kit - a sociometric technique (Araujo and Easton 1996). The present study is positioned as descriptive and explanatory, having as its objective to explain certain aspects of network phenomena, namely their use in firm strategy. ‘Networks’ is a noun, a structural approach to the firm’s external interactions, and ‘networking’ is the interpersonal process of building them. Networks can be internal or external to the firm and they build up over time, and thus timescales of relationships are used and identified in the study. Trust is a key theme in building relationships and this too is used and identified. The concept of intentional networks, nets, is relevant to this study and, in keeping with the debate in the network literature (and in parallel with the debate in the strategy literature), the notion of emergent organic networks is also used. A major application from the literature to this study is the Resource ties, Actor bonds and Activity links (RAA) model of the IMP (Industrial Marketing and Purchasing) group (Håkansson and Snehota 1995). This is a clearly established way of theorising and explaining the levels of relationship interaction among firms in their relationships and networks. Relationships are part of the firm's wider networks and are thus operationalised in the RAA model at the firm level, at the dyadic relationship level, and at the wider network level. Since the approach taken in this qualitative interview based research is to use the informants' definitions of their network boundaries, and these were not known in advance, the market or industry as the network was used as a conceptual basis of the study (see Section 2.2). The business network literature is moving from a view of evolving, naturally occurring networks to encompass ideas of intentionality and strategic intent in creating and using networks or relationships. The passivity of the traditional view of networks as merely there, as the context for business, is moving to incorporate strategic elements: managing networks not just managing in networks (Ford, Gadde et al. 2003; Gadde, Huemer et al. 2003). This parallels the shift in the strategic management literature in a crucial way.

Major themes from the literature applied in this study are around the nature of the structural linkages between firms, which may be formal (and within a recognised legal format such as joint venture, consortium, franchise or long-term contracts) or informal, such as friendship or family based. Relationships can also be vertical within the value system or horizontal, with other firms at the same stage. These concepts are applied as ways of describing where and how relationships are structured within the firm's value systems and as a common basis for comparison among them. In analysing firm relationships in the study, motivations and functions of the relationships are seen as closely associated. The function of the relationship in strategy: direct (profit, volume or safeguard) and indirect (innovation, market, scout and access) (Walter, Ritter et al. 2001) are related to how the relationship fits in to the firm's value-creating system and the nature of the depth of interaction: value-creating, dependent, committed or connected (being stages identified which could be a development pathway but which are used to show depth of involvement) (Holm, Eriksson et al. 1999). Finally, since firms may choose not to cooperate and act independently, the study is underpinned by an awareness of the TCE approach to interfirm exchange, whereby it might choose to operate as an internal hierarchy, and by the notion that human values may involve choice not to cooperate or interact with others or only to do so on a limited contractual basis.

In understanding the use or not of relationships and networks, the following concepts and definitions are used. The study uses strategic terms, building or forming network relationships, rather than the general interpersonal term of 'networking'. This study focuses on the dyadic relationships, on-going, long-term interactions, identified by a focal firm. These relationship may or may not be seen by the focal firm as part of a larger network but interviewees identify their relationships rather than their networks. Networks in this study are external to the firm not internal, and only where interrelated relationships involve a number of firms is it seen as a network. The term 'net' is used for an intentional strategic grouping. The use of the term 'relationship' here is for on-going co-creation of value, not merely some kind of exchange. Where the focal firm is in a simple exchange relationship, this is seen as a 'connection', with no long-term, value-creating connotation. Groups of relationships, nets or networks, may be connected to other networks but a connection has low intensity involvement for the focal firm.

1.6.4 Combining strategy and relationships in this research

Value in relationships can refer to the value *of* relationships, what partners do in relationships and relationship processes (the relationship function) (Walter, Ritter et al. 2001). It can also refer to the value gained *from* relationships, what they add, what benefits they bring (value creation) (Holm, Eriksson et al. 1999; Srivastava, Shervani et al. 1998; Srivastava, Shervani et al. 1999). A critical issue is the extent to which these concepts are distinct, and the ways in which the separate actors relate to these different concepts of value in relationships. An important set of factors for study is ways of assessing the value of relationships (Ford, McDowell et al. 1995; Gassenheimer, Houston et al. 1998; Gordon 1996; Payne and Holt 1998; Tzokas and Saren 1998; Walter, Ritter et al. 2001; Wilson and Jantrania 1994). Again, there is a need for empirical studies to assist an understanding of interacting firms' *perceptions* of value in evaluating, forming and realising strategy. Such perceptions are important because they influence behaviour. How the researcher approaches this will depend on the theoretical perspective chosen. An economic perspective may consider rational calculative financial gains, whereas a sociological viewpoint may value interpersonal relational dynamics. It is unclear, however, what practising managers *actually do*; whether that actually make such distinctions and whether they are aware of their options and implications.

Reger and Huff spearheaded research attention on the shared perceptions of industry participants (Reger and Huff 1993). The present study may be said to factor in the biases managers may carry (Gordon 1996) within a single industry structure, thus allowing across firm comparison. Individual relationships, and the strategies whose pursuit they may facilitate, may be seen as contingent and context specific (Huff and Reger 1987). Thus they must be studied and evaluated within their unique setting. Industry or country-based studies, or the wider context of all firms within a particular strategic group, would seem to be useful vehicles for exploratory analysis and theory building.

The literature and theoretical understanding of relationships and networks and strategy are converging around: balancing intentionality and emergence; balancing social and economic perspectives in strategy, and; understanding value creation structures, processes and outcomes. These issues centre on how much the firm understands and controls value creation processes and how the firm might assess their outcomes. Key integrating concepts from both the strategic management and networks literatures covering structural and process issues of value creation in and of relationships and networks are used in this study. Structurally, relationships and networks are organising frameworks for value-creating activities which add an external analysis to traditionally internal approaches to value-creation. Analysis of value creating systems, in which value is co-produced, is beginning to centre on activities performed rather than on individual firms as actors (see Parolini 1999), though this study analyses both. On the nature of ties, firms can have too few (leading to lack of information and opportunities) or too many connections (leading to too much interaction), can be under- or over-embedded, and need to have a balance of strong and weak ties. Finally, newer networks and relationships are more dynamic than older ones, which may or may not be a good thing.

1.7 Delimitations

The key limitations of this study are decisions taken on sampling procedures and the industry context, which limit generalisability. The qualitative methodology adopted in this study builds on existing knowledge and understanding and extends this in a new and original way. The two-stage method of data collection enables theory-building through an exploratory stage followed by a confirmatory stage. In-depth data are interpreted into a complex and rich source of understanding though the data may be demanding for the reader: one of the most difficult aspects of this qualitative research and data is to keep the meanings of the informants, express the richness of the data, conceptualise it theoretically, but not to lose the essence of how the informants perceive their relationships and networks.

The industry context is a deliberate choice in order to hold aspects of the strategic environment constant, but this means that the study is limited in its generalisability only to this industry. It makes no claims about the ability to generalise its findings to other industries or geographical contexts. There is however considerable scope to test for external generalisability in further studies. The conceptual models arising from the research may now be extended to test their validity in other contexts, other industries or with other groups of wine companies. The interview firms are selected on the basis of size, assuming that larger firms are more strategically complex and to allow pattern and outlier identification in the data analysis. The data are thus limited to the larger New Zealand wineries, excluding the smallest companies in the New Zealand wine industry, so there may have been significantly different data and conclusions if the study had included very small firms. The research focuses on only one half of each relationship dyad – the wine company's point of view - and, whilst the study collects data from all of the top wine companies in terms of size, it is limited to the focal wine companies themselves and does not take into account the views of other suppliers and buyers in the wider network.

This qualitative interpretive study is subject to the delimitation of possible subjectivity in the data analysis. However, the coding and analysis are clearly documented, are held in the case database in the Nud*ist computer package and are available and replicable. Philosophically, the approach taken is that it is the interviewees who understand *their* business relationships and *their* strategies and relationships, and for the researcher to make the theoretical explanations and connections among these explicit. Sources of bias for this study include the researcher: she might have gotten closer to the interviewees, and sought more of their free-flowing reflections rather than relying on a pre-prepared, semi-structured questioning frame. However, this frame is grounded in the literature, giving structure and some confidence of the real world relevance of the issues to them, as well as of theoretical rigor. What the informant says is always influenced by the interviewer (Maxwell 1996) and a number of references made by the interviewees to qualifications, education and training possibly reflect how they see an interviewer from a University PhD programme. However, the researcher was careful to say that it was the informant's view that she was interested in and this does not seem to have been a source of bias.

1.8 Chapter Summary and Conclusions

This chapter has given an introduction to and an overview of the thesis presented here. The problem orientation concerns understanding the strategic processes by which firms characterise and use their relationships in strategy. The two-part research methodology firstly explores the factors at play in the causation of linkages, relationships and networks within a rapidly expanding and internationalising industry. It then tests a model of relationship drivers and concludes by offering new theoretical insights into cooperative business strategies. The research contributes to understanding of strategy content and process by offering two new theoretical frameworks. One models how firms' understanding and value placed on relationships is integrated into strategy processes. Another integrates concepts in a new way to show the main ways of understanding relationship development and use in strategy.

Chapter 2: Literature Review and Theoretical Synthesis

2.1 Introduction

This thesis examines network strategy in the New Zealand Wine industry, seeking to explain how firms in the industry understand and use their business relationships. This chapter reviews the relevant literature and then specifies the concepts used in addressing the research questions. The three interlinked research questions addressed in this thesis are:

1. How do individual firms within the New Zealand wine industry understand their business relationships?
2. How does firm understanding of business relationships in this industry affect how they are used in strategy formation and realisation or not?
3. What explains the link, if any, between understanding of business relationships and their use in strategy?

This chapter reviews the management literature on industry and firm level approaches to strategy within networks relating to how companies understand their business relationships and how and why they use them in their strategies within an industry context. Focal theory is drawn from the fields of strategic management and business networks as, within the literature which considers interfirm linkages and relationships, those are the disciplines in which most attention is paid to this general area. An industry study provides a common context for strategy (Heugens 2003; Porter 1998; Sutcliffe and Huber 1998; Whittington 1988) and thus hold certain environmental conditions constant. The data and findings reported in Chapters 4 and 5 are thus conditional on the industry context. The New Zealand wine industry was chosen as a research setting as it exhibited a mix of collaboration, cooperation and competition (Benson-Rea and Wilson 1994; Khanna, Gulati et al. 1998; Oliver 2004). An industry study also addresses the broader question for both theory and practice of how to explain the strategic diversity and the origins of competitive heterogeneity within an industry (Miller 2003). The objectives of this chapter are:

- To explain the conceptual choices and boundaries of the research;
- To review literature and previous research relevant to the study;
- To identify critical concepts that informed the research;
- To present the theoretical synthesis that guided the research.

The literature was selected to shed light on the elements of the conceptual model set out in Diagram 1.1, namely, the links between firm understanding of business relationships and how firm strategy is formed; between the realisation of firm strategy and its use of business relationships; and between how a firm understands and uses its business relationships in strategy realisation. Since one of the research objectives focuses on an industry, it was first important to define the industry level context for strategy, so the boundaries of industries and the behaviour of firms within industries and other groups are reviewed. Then, to conceptualise how the case industry managers might understand and describe strategy, as strategy is formed and ultimately implemented at the firm level, the literature on firm level strategy is reviewed. The strategy section focuses on approaches to strategy, going through the classical view of the autonomous business firm positioning itself competitively through static analysis, through the view of the firm as achieving competitive advantage through resource acquisition or leverage, through to the notion of the firm as competing on unique competences or dynamic capabilities. Then in order to characterise how and why firms might use relationship-based approaches, the section on relationships and networks focuses on definitions of and understanding the formation and functions of business relationships, and the ways in which firms are connected and their activities interrelated in networks of relationships. The third section of this chapter brings together networks of relationships and what is known about how firms value and use their relationships in their strategy, and hence the interplay between firms' strategies and their network connections. The chapter ends with the identification of gaps in the extant literature which this study addresses, making the link between the research problem and the wider body of knowledge (Perry 2000).

A second research objective was to contribute to strategic management theory by linking strategy content and process - what is carried out and how it is achieved (Huff and Reger 1987; Lengnick-Hall and Wolff 1999; Van de Ven 1992) in the context of a firm view of network strategy within a particular industry context. In strategy research few developmental studies of strategy formulation and implementation have been carried out, particularly from the manager's perspective (Van de Ven 1992). Huff and Reger (1987) advocate more studies which look at strategy formulation and implementation simultaneously and also studies which consider content as well as process:

> There is a great need for process researchers to consider the content of strategies. The nature of process is sensitive to the subject being considered, the industry within which the decision is being made, and the history and anticipated future of other decisions (ibid:226).

Specifically, the research aimed to explain how firms in one industry understand, evaluate and use their networks of business relationships in formulating and realising their strategies. 'Network strategy' is defined as the firm's approach to its networks of relationships within its overall strategy. Firms may be said to manage their networks of relationships, with suppliers for example, or they can be said to manage within networks, within the context of an industry association, for example (Oliver 1990). Firms do both: business relationships are along a continuum, depending on the levels of power, influence, importance and control the firm perceives itself to have in the relationship (Gadde, Huemer et al 2003). Thorelli argues that power, ability to influence the decision or actions of others, is *the* central concept in network analysis (1986). Above all, the focus of this study is on the firm, not the network itself. The common factor in the use of relationships in strategy is that whether firms *have* networks or are *in* networks, in both approaches a relationship may be available to the firm as a latent capability. The key issue then becomes how or to what degree the firm uses it. Whatever theoretical lens is used to understand firm behaviour in networks, what is important in this research is how the firms view it themselves and this is underpinned by two broad concepts. Firstly, that business is a social process and there is increasing recognition that the firm operates in an embedded context. Secondly, that social and economic views of firm behaviour are converging. These two concepts are briefly reviewed.

2.1.1 Embeddedness

The research was interested in the firm's interactions with actors external to itself and those aspects of firm strategy that link the firm's positioning in markets and relationships with other actors. Central to the literature are a number of concepts about the nature of and explanations for interfirm co-operation. Assumptions about embeddedness are key differentiators of the various theoretical approaches taken in the context of business relationships. In a structural analysis of interfirm relationships firms are embedded in larger systems or networks and many networks may exist within it (Halinen and Törnroos 1998). Social analysis sees this as reflexive and recursive whilst economic analysis sees this as the result of rational choice based on imperfect markets and beliefs about actors' motivations. These two theoretical approaches are coming together in the business literature. To illustrate this, in a comparative approach to the analysis of business systems Whitley (1992) identifies the interdependence of dominant social institutions and forms of economic organisation, concluding that the two are mutually reinforcing. Further, the connection between institutional and business system change varies according to the cohesion and consistency of the two. Thus:

> Dominant, established ways of organising market economies then, reflect the conditions in which they developed during industrialisation and are unlikely to change significantly without major institutional alterations (Whitley 1992:249).

Organisational studies on the interface between the organisation and its environment have tended to conclude that the individual organisation is embedded in its environment and its behaviour is thus greatly constrained, if not predetermined (Håkansson and Snehota 1989). Actors are seen as embedded in networks with economic and social dimensions (Gadde, Huemer et al. 2003).

An area which has been lacking in strategic management research, according to Baum and Dutton, is work which confronts 'the complexity of strategy as context and as social process' (1996:4). They see research in strategy as hitherto focused on an atomistic view of the focal firm, with a resulting ability to predict and prescribe firms' actions from a firm-centred but only partial viewpoint. In their discussion of firm embeddedness Baum and Dutton call for more focus on the network properties of firms' strategies (1996:5) perhaps leading to a 'relation-based' view of the firm, thereby undermining the idea of context as a merely exogenous force (Baum and Dutton 1996). In this vein, Uzzi (1996) argues that conventional competitive analysis fails to take into account the “unique dynamics at the more proximate, determinant level of the network or the local niche” (1996:426). Uzzi defines his concept of multiplexity as the condition of conducting multiple, simultaneous economic relationships with the same parties, and argues that: “Multiplexity occurs when the same parties simultaneously play the roles of rivals, partners, buyers or sellers to each other” (1996:426). The connectedness of firms in business relationships is a key underlying assumptions in this study.

2.1.2 Convergence of social and economic views

Exchange in markets can be seen as transactional or relational (Arino et al 2001). Markets are complex social structures in which business relationships are embedded, meaning that individuals, firms and relationships are deeply rooted in diverse networks of interactions within their environment (Baker 1990; Granovetter 1985; Polanyi 1957; Schumpeter 1951; Williamson 1998). “Economic action is embedded in social structure…in ongoing social ties”, (Uzzi 1997:35) and is:

> a concept that has been used to refer broadly to the contingent nature of economic action with respect to cognition, social structure, institutions, and culture (ibid:36).

In their research on managers and competition, Easton et al (1993) placed strong emphasis on the social aspect of competition and industrial competitiveness, seeing competition as a social as well as an economic process. They found that the study participants saw competitors as human individuals as well an economic entities. Easton et al go so far as to comment that it is important ‘who you know’ as well as ‘what you know’ in industry competition (ibid:284). Exchange relationships may be through acquaintances, friends or partners (Johnson and Selnes, 2004).

The social and the economic co-exist as drivers of firm strategy but the rationality assumed in economics, and hence in much of the strategic management literature, needs to be tempered by more focus on the social (Granovetter 1993; Swedberg 1993; Uzzi 1996). Firms or organisations are ‘the context in which social relations and economic exchange are embedded' (Ghoshal and Moran 1996). Whilst the economic or the social may co-exist or predominate in the analysis of strategy, and thus in the analysis of interfirm co-operation and relationships, firm behaviour exhibits both simultaneously. Economics and sociology are coming increasingly close in their issues and concerns (Baron and Hannan 1994; Granovetter 1993; Granovetter and Swedberg 1992; Swedberg 1990; 1993; White 2002). Swedberg (1993) argues that economists have gone too far in expunging social and historical elements from their discourse and that this limits their analysis as social scientists. Thus he defines economic sociology as:

> an attempt to analyze economic phenomena as social phenomena or as resulting from human interaction, within the context of broader social structures. (ibid:xiv).

Granovetter (1993) and Swedberg (1993) both assert the need for a mix of economic and social analyses. This thesis responds to this convergence: business relationships based on sentiment are as valid as those based on economic value (Easton and Araujo 1994). An important economic theory that seeks to explain long-term exchange between firms and how these influence the boundaries of the firm is transaction cost economics (TCE). Highlighting the need for a balance of the social and the economic, Ghoshal and Moran (1996) fundamentally question the central concepts of TCE that the organisation exists to combat opportunism through the use of hierarchical controls - with networks as an intermediate or hybrid form (Ebers and Grandori 1997) - and that the TCE preoccupation with opportunism arises from uncertainty, which in turn has two sources: external (from technology and markets) and internal (from individual discretion). Ultimately, they argue, TCE fails to take social control into account in the organisational context and assumes only rational, calculative control: they believe that the threat of opportunism in markets is overstated and that firms are far more able to mediate exchange than TCE allows. Ghoshal and Moran critique Williamson's 'ideological bias' which they assert 'suggests authoritarian subjugation of human volition.' (1996:30). This has resonance with Dunning's postulation (1995) of 'alliance capitalism' as another alternative to hierarchy (via internalisation). Both critique the TCE approach because of its failure to recognise shared human purposive action – co-operation. As Ghoshal and Moran express it:

> the advantage of organizations over markets may lie not in overcoming human pathologies through hierarchy, but in leveraging the human ability to take initiative, to cooperate, and to learn (1996:42).

Having described two broad areas of background theory, the rest of the chapter is set out as follows. Three areas in the extant literature form the basis of the focal theory of this thesis, serving to identify what we already know about how firms understand and use relationships in the strategy context. Combining an overview of the industry as context, approaches to strategy, and to relationships and networks, gaps in the literature are identified which informed the research. Finally, the concepts used in the research to address these gaps are summarised.

2.2 Industry as the context for relationships and strategy

This section describes ways of analysing industries and sets out the arguments for using an industry as the context for explaining how firms understand and use their networks and relationships. A full description of the research context, the New Zealand wine industry, is given in Chapter 3. The key concepts in this section put boundaries on the research context by defining similar groups of companies, either strategically or geographically, and how the firms are constrained by forces in its industry and environment. Firms are embedded in an industry, which we can define as both a social and an economic system, within which they both cooperate and compete. There are a number of ways to define an industry: by industry boundaries, by the way they organise economically or in terms of markets they serve and the ways in which they compete in them, as perceived by actors within it, through the social and physical structure of groupings of actors, or by their geographical proximity. Industry boundaries are important here because how the firm views its industry boundaries, industry change and industry evolution is central to its view of its relationships. The industry networks are a product of its history (Håkansson and Johanson 1990). Each of these approaches is considered below.

2.2.1 Industry boundaries

Industry is a general way of grouping firms and defining the boundaries of the firm's view of its strategy and strategic options. Theoretical perspectives on grouping firms include: the economically oriented industrial organisation school (Hamel and Prahalad 1994; Porter 1980), the organisationally focussed population ecology school (Carroll and Hannan 1995; Hannan and Carroll 1992; Hannan and Freeman 1977; 1989; Swaminathan 1995) and the more socially oriented networks approach (Araujo, Bowey et al. 1998; Araujo and Easton 1996; Burt 1992; Carroll and Teo 1996; Easton, Burrell et al. 1993; Uzzi 1997). As industry boundaries are changing, becoming blurred, Parolini (1999) suggests referring to groups of firms in industries as 'competitive systems'. Whilst the legal boundaries of the firm remain clear, these are becoming different from their strategic boundaries. Further, industry networks evolve over time and industry events will shape the industry network (Madhavan, Koka et al. 1998). Whilst this research was conducted on wine companies within a defined set of geographical regions (see Chapter 3), which would identify themselves as being in a single industry, in activity terms there were wineries which only made wine, and wine companies which only bought and sold wine; there were some wineries which grew no grapes themselves and others which grew all of their own grapes; there were wineries with their own sales teams and some with none. Thus whilst all in the same industry, they had very different strategic boundaries and interacted in their competitive systems in very different ways.

2.2.2 Economic views of industry boundaries

Transaction cost economics (TCE) seeks to explain long-term exchange between firms and how these influence the boundaries of the firm. This is now discussed in order to show how this influential view fails to offer a complete view of firm interactions and requires the addition of socially-oriented elements. In the TCE view of interfirm exchange, boundaries, assets and governance are clearly and rationally identified. But the boundaries of the firm are becoming blurred (Langlois and Robertson 1995; Parolini 1999). The relational or socially-oriented view is more comfortable with blurred boundaries, shared resources and emotion-based trust, although the economic perspective is increasingly accommodating some of these factors. It can no longer be assumed (as in TCE) that most resources are employed *within* firms (Coase 1991:229). Resources are increasingly employed *among* firms, in partnerships, joint ventures and the like, since few companies have enough resources to cover all the business opportunities available to them (Barney 1991; Kanter 1993; Lengnick-Hall and Wolff 1999; McEvily and Zaheer 1999). The crux of the TCE argument, that firms will internalise transactions to minimise their costs, that is control costs within the hierarchy of the organisation rather than on the open market because markets are imperfect and will fail (Williamson 1991; Williamson and Winter 1991), retains appeal in the business literature. The key characteristics of such transactions are: (a) frequency; (b) degree and type of uncertainty; and; (c) asset specificity. The last one is the most important because, whilst in neo-classical market based economic transactions the identity of parties is irrelevant, in the case of a transaction involving ‘non-trivial investments in durable, transaction-specific assets’ (ibid:94) this is critical. Parties involved in the latter kind of transaction are *bilaterally dependent* and thus ‘the governance of contractual relations greatly complicated’. However, in his analysis of the institutional environment of the firm, the formal rules for the conduct of firms – property, policy, judicial and bureaucratic – Williamson does argue that embeddedness, the informal connections between firms, occurs spontaneously. A wider perspective of firm boundaries is required: it is not merely organisational form that brings returns on investment but meeting the needs of customers (Langlois and Robertson 1995). Firms have a variety of multiple, interdependent goals and the appropriate vehicle for this depends *inter alia* on transaction costs, skills and activities which it is increasingly not possible to accomplish internally. Industries and markets are now considered further.

2.2.3 Market based views of industries

Neo-classical economic theory takes the firm as the unit of analysis in building a picture of an industry. Langlois and Robertson (1995) urge discussion of the boundaries of firms in the market context, informed not by questions of allocation and welfare but by those of growth and development, new value and competitiveness in which ownership is the crucial issue offering insight into organisational structure or sequencing of tasks. In terms of market structure and location, an industry may be defined as a firm or group of firms, and markets as the nexus of interaction between buyers and sellers (Jacobson and Andréosso-O'Callaghan 1996:45). Strategic markets are the 'smallest area within which it is possible to be a viable competitor' (Kay 1993). Jacobson and Andréosso-O'Callaghan argue that markets and industries can only be defined on a case by case basis. Accordingly (after Devine et al 1985: 27):

> industry structure is related to the relative importance of individual industries or groups of related industries within an economy and to patterns of transactions between these industries (1996:107).

A further approach to analysing industry structure and approaches to markets is found within organisational theory. An ecological perspective on organisations focuses on the founding, performance in markets and mortality of populations or groups of organisations (Carroll and Hannan 1995; Delacroix, Swaminathan et al. 1989; Hannan and Carroll 1992; Hannan and Freeman 1977; 1989; Swaminathan 1995), which has been termed the variation-selection-retention cycle (Lewin and Volberda 1999). The evolutionary dynamics of organisations link the political, market and institutional environment to groups of firms in populations (Swaminathan 1995). This is an externalised approach, in that, unlike organic populations, businesses can influence their environment and change it proactively (Moore 1993; 1996). Delacroix and Swaminathan (1991) found that a population ecology theory of 'a generic organizational process' was not supported by the performance of the Californian wine industry. Thus failures in the industry over a 45-year period (1940-95) were not attributed to population density, as proposed by Hannan and Freeman (1989), but by the fact that wine companies escaped overcrowding in industry markets by 'migrating laterally to a neighbouring niche (or by enlarging the initial niche)' (Delacroix and Swaminathan 1991:259). This supports change in business ecosystems by moving the industry boundaries (Moore 1993; 1996), or moving to new competitive space (Bowman 1992).

In understanding the industry context for firm interaction, strategic group analysis identifies and classifies organisations by similarities and differences in the market strategies they follow or along other strategic dimensions (Duysters and Hagedoorn 1995; Grant 1995; Johnson and Scholes 2002; Lewis and Thomas 1990; McGee and Segal-Horn 1990; McGee and Thomas 1986; Porter 1980; Reger and Huff 1993). Some research examples are shown in Table 2.1. An intermediate level of analysis between the firm and industry levels, characteristics in common are identified and mappings made according to the variables chosen, such as: product diversity, R&D capability, geographical coverage, cost position, market segments served, capacity utilisation, distribution channels, pricing, brands, gearing, marketing effort, ownership, quality, stakeholder groups, technological position, size (Johnson and Scholes 1999). At a general level, strategic groups of firms may be viewed as those which manifest homogeneity of conduct within industries (Cool and Schendel 1988; Duysters and Hagedoorn 1995). Such firms may show similarities in business scope and resource commitment (Cool and Schendel 1988). The definition of industry used in this study is focused on those firms which cooperate and compete in a specific product market area, having common production technology methods and similar value systems.

Table 2.1: Strategic groups research examples

Authors	Industry
McGee & Segal-Horn (1990)	Food processing industry
Duysters & Hagedoorn (1995)	High-tech industries
Feigenbaum & Thomas (1990)	US insurance industry
Hunt (1973)	Home appliance industry
Hatten et al (1978)	US brewing industry
Cool & Schendel (1988)	US pharmaceutical industry
Grant (1995)	Petroleum industry

Source: Developed for this study

This type of analysis is useful for identifying which companies compete with each other, on what basis they do this and how this differs from other groups. It can show mobility opportunities or barriers and areas of strategic weakness. It does not show, however, the changing dynamics of the industry or where it is in its lifecycle. As is the case with many tools of situation analysis, it gives a static picture. This theme will be picked up in Section 2.3 on approaches to strategy. Whilst empirical research has focused on differences in firm profitability within industries, it has found little evidence to support hypothesised differences within groups, concluding that profitability differences within groups are not generally less than differences between groups (Grant 1995). Grant believes that this is due to the fact that firms within a strategic group are not inevitably competing against each other, implying that strategic group analysis is a useful but descriptive tool. Reger and Huff (1993) support its use as a result of their finding that managers within industries do indeed have shared ideas about groupings of players. How managers perceive their industry is now explored.

2.2.4 Managerial perceptions of an industry

Firm behaviour within the network context is influenced by the concept of 'institutionalised thought structure' (Perrow 1986:207). Wensley (1995) calls for more research to help understand 'the way in which network(s) structures influence firm behaviours' (1995:S68). In exploring an industry's views of its network within the context of a particular environment, a 'dominant logic' may exist about the networks and this may inform thinking about the strategies it is appropriate to pursue within it (Bettis and Prahalad 1995). This can help to understand why patterns of cooperation and long-term relationships build up in some industries and not in others and the possible influence of shared perceptions on industry futures and evolution (Naude, Lockett et al. 2000; Reger and Huff 1993). The strategic choice process around interfirm co-operation and relationships needs to be understood in terms of perceptions, cognition and structure of the industry context. Within an industry managers cope with information uncertainty (bounded rationality) 'in ways that are characteristic of that industry' (Spender 1989:6). Managers have a common sense about that industry, 'what everyone who knows this industry understands' which Spender defines as the industry recipe. Thus:

> The industry recipe is the business-specific world-view of a definable 'tribe' of industry experts, and is often visibly articulated onto its rituals, rites of professional passage, local jargon and dress (ibid:8).

Focussing on uncertainty and creativity, recipes are not predictive about consequences but are more akin to road maps, though they have nothing to say about diverging from that route, since it is "incomplete, ambiguous and in need of interpretation before it can be used as a guide to the firm's action" (ibid:7). Spender relates his 'contextually limited theory of the firm' to strategic group analysis (ibid:206) in which performance is a function of industry structure and competitive behaviour. This view of cognition about the industry context is developed by Bettis and Prahalad (1995) who define the concept of dominant logic as: "the way in which managers (in a firm) conceptualize the business and make critical resource allocations decisions" (1995:460). It is stored via shared schemas, cognitive maps or mind sets and is determined by the managers' previous experiences and largely unrecognised by the managers themselves. People use their experience to make decisions in field settings (Zsambok and Klein 1997:4) and these factors also influence the ways in which individuals conceptualise their business and, importantly, they can constrain the firm's ability to learn. Bettis and Prahalad juxtapose this concept with the adaptive organisation, taking the model of complex systems (Kauffman 1993) which exhibit non-linear behaviour and seek to adapt to their environments. The dominant logic can prevent adaptation since the longer it has been in place, the more difficult it is to unlearn. They believe that the 'science of complexity' view of strategy is evolving and cite Holland (1992):

> The impact of these (complex adaptive) systems in human affairs centers on the aggregate behavior of the whole. Indeed, aggregate behavior often feeds back to the individual parts, modifying their behaviour (Bettis and Prahalad 1995:12).

It is important to understand the links between managers' perceptions of their strategies and their networks within their industry context in order to explain its strategic diversity.

2.2.5 A dynamic view of industry

The industry context is not static: industries change over time and form a dynamic milieu for the firm. Industry boundaries are not static either, nor is the way in which actors behave in that context (Madhavan, Koka et al. 1998; Parolini 1999). There can be contradictory views about the nature of competition within one industry, which may be based on the fact that some players maintain their traditional assumptions about the industry whereas others see the industry evolving and the nature of competition much changed within it. Thorelli (1986) posits the view that networks are subject to cyclical development. Cool and Schendel found evidence to suggest that "environmental changes or discontinuities may prompt firms to alter their strategic behaviour" (1988:220). The present study sees how individual firms view their industry context as pivotal in their strategic and relationship options.

Firm and industry lifecycles have an influence on perceptions of competition and strategy (Easton et al 1993). Industry boundaries begin fuzzy but become more defined as an industry matures though structure develops unevenly (ibid), with the development of long-term exchange relationships constraining markets and making them less free and atomistic. Easton et al (1993) offer a model of four stages of industry development, which explains social relationships among competitors and how these change as the industry matures, these are: the community stage, the informal network, the formal network and the club stage. Firms go through an early lack of awareness of, or identification with, the developing industry in which conventional competition is absent due to uncertainty and there is more loyalty to the wider community than to their firms. The industry then starts to develop its own sense of identity because 'the competitors, products and markets become better defined and differentiated from those of other industries'. There is then more loyalty to the firm, relationships are more formal and elite groups begin to form. In the next stage relationships become more institutionalised: there are fewer firms and they are more acutely aware of each other. Finally, external threats to industry survival lead to an implosion of structure: relationships are less formal, defensive and mostly pragmatic (Easton, Burrell et al. 1993).

Easton et al (1993) look to the population ecology view, in which isomorphism is used to explain the absence of variety within populations and their tendency to adopt the same strategies and structures when in the same location. Easton et al see this as a useful way of understanding survival strategies, based on a social model of shared values. Industries change and so do “the typical isomorphs of competitive behaviour” (1993:299). They stress the importance of change in behavioural patterns from the isomorphic to the next stage: too soon and the firm will be ‘out of step with the social network which is the industry’, too late and it is questionable whether the firm can survive in a changed environment. The right time for industry change is when the signs are there for the industry as a whole to see. In other words, the process of change is a social process rather than an economic one and as such requires some consensus which in turn reinforces isomorphism. So Easton et al (ibid) see two ‘modes of competitive behaviour’: the main isomorphic mode adopted by most population members which allows their survival, and a smaller group which may be successful or not depending on timing. An analysis of the industry lifecycle may identify how it has developed but it does not explain what influences the differing views or perceptions among players of their industry context. The main gap in understanding here stems from assumptions about homogeneity of strategies within an industry at various stages of the industry’s development or lifecycle. These assumptions may be valid in terms of realised strategies, but the strategy formation and relationship pathways used to achieve these may be very diverse. A fuller explanation of firm behaviour in an industry may be developed from a deeper understanding of how firms perceive their business relationships and how these change in an industry context.

2.2.6 Industries as social systems

The ways in which actors in firms perceive their business relationships within an industry will be influenced by their social interactions. Building on a collective view of an industry, the concept of social capital, which involves “social networks, the reciprocities that arise from them, and the value of these for achieving mutual goals” (Baron, Field et al. 2000:1) is seen as a beneficial outcome of local levels of trust and cooperation, including among businesses. Analysing social capital is not about ‘Grossing up the numbers of organizations to which people belong’ but is more about what people actually do as members of, for example, an association, and how far this relates to public as well as private goods (ibid:27) and also about the way in which society or levels of it can benefit from joint social activity, based on trust. The concept of social capital is important because it moves the focus of analysis away from the behaviour of individual agents to the pattern of relationships between agents, social units and institutions and it enables links between these levels of analysis (ibid). In social systems collective firm activity is a form of social conduct which is regular in some way and can be analysed as:

- Typical sets of connections;
- Unacknowledged conditions of action;
- The rationalisation of action in context;
- Purposive reflexive monitoring;
- Unintended consequences of action (Giddens 1979: 243).

Social capital, set in the local context for business, may be added to technical and commercial factors in linkage-formation (Ahuja 2000). Coleman (1988), a leading proponent of the concept of social capital, defines this as existing or being created when network actors' relationships are embedded in dense interactions which develop behavioural norms which can enforce adherence to these. Within co-operation, norms will emerge, as in any social setting. Axelrod and Bennett assert that these will exist: "to the extent that individuals usually act in a certain way and are often punished when seen not to be acting in this way" (1997:47). Further they identify metanorms, whereby groups will punish someone who does not enforce a norm (Axelrod and Bennett 1997). Thus interaction within networks is highly complex, and the dynamics challenging to identify.

Linking social capital and the wider social system, Giddens' duality of structure argues that reflexive monitoring of action both draws upon and reconstitutes the institutional organisation of society (1979:255). Human agency implies structure and vice versa. Individuals know much about the workings of society (and thus its reproduction) and structuralism 'illuminates the temporal ordering of social reproduction'. The dualism occurs between structure/event and the unconscious/conscious. Giddens makes a clear distinction between system (the reproduction of spatially and temporally situated events) and structure (the medium and outcome of such reproduction) (1979: 256). Sydow et al (1998) used Giddens' structuration theory as a framework for analysing the processes within an industry network and found it had strong explanatory power in understanding the recursive nature of network linkages that is, how they build, develop and are mutually adaptive over time.

Taking the social structure of business interaction further, interfirm networks may be seen as complex, self-organising systems, seeing relationships as having an identity or 'personality' (Young and Wilkinson 1997). From complex systems theory (Biggiero 2001; Kauffman 1993; Moore 1993: , 1996 #462) concepts such as attractors (that is, within a particular system, those attributes or purposes which bring actors or bodies together and/or hold them apart) may explain the nature of specific networks (Young and Wilkinson 1997).

Self-organising systems are made up of members who are said to be embedded within the structure of that system or network and who co-evolve and adapt together. This is a critical concept in socio-economic analysis, which is reinforced by research into self-organisation and adaptation in complex systems in which:

> Coevolving adaptive agents attempting to predict one another's behavior as well as possible may coordinate their mutual behavior through optimally complex, but persistently shifting models of one another (Kauffman 1993:404).

Within such systems, the rules and procedures are unannounced but norms are learnt and amended. A complex system is defined as one that may not be reduced to a simple sum of its parts (Cilliers 1998). In a business system or network individuals do not have to know the roles everyone else plays nor do they need to carry a mental map of the entire system. The system works as the result of the interaction, whether direct or indirect, of all the players. Thus:

> Complexity is the result of a rich interaction of simple elements that only respond to the limited information each of them are (sic) presented with (Cilliers 1998:5).

The application of complexity theory to business systems allows a new perspective on understanding the adaptive nature of dynamic systems, the interaction between process and structure and the relationships between the system as whole and the sub systems or parts. Whilst a network or value creating system (Normann and Ramirez 1993) may appear 'complex' from the outside, this may not be the experience of any one member (Ramirez 1999). In a metaphor drawn from biology and social systems for competition which crosses traditional industry boundaries a business ecosystem is one in which firms 'co-evolve around a new innovation, work co-operatively and competitively to support new products and satisfy customer needs' (Moore 1993). Moore (1996) sees the end of industry boundaries as they had been known and asserts that vertical and horizontal integration fail as concepts in new, co-operating communities (1996:15). The key distinction, however, is that unlike biological systems, business systems are social systems made up of people who make decisions.

2.2.7 Industries as geographical clusters

In terms of the physical environmental context for relationships and networks, regional clusters, geographical proximity, need for frequent interaction and short supply lines may encourage cooperation (Porter 1990; Zeitlin 1989). Factors identified as facilitating local collective co-operation include:

- Networks as motors of localised economic growth or regeneration ;
- Flexibility, high levels of trust, information flows and reduced or eliminated broker dependence (Hill 1992);
- Institutional support, competition to join 'best' networks (ibid);
- Strong existing service support from banks, consultants, accountants, etc (DTI 1994);

- Strong industry identity, firm driven, importance of the broker (Australian Manufacturing Council 1990);
- Competitive advantage in local factors – 'knowledge, relationships, motivation' (Porter 1998).

The community context for interfirm cooperation can be explained by trust building within industrial districts (Biggiero 2001; Dei Ottati 1996). These are geographically proximate regions where firms are engaged in flexible specialisation through "complementary and symbiotic roles of the planning company (which plans products and organises) and expert companies" (which are assigned to different manufacturing processes) (Japan Small Business Research Institute 1997:8). Value is created through effective, trusting relationships at the community level in flexible combinations, based on sharing information on markets and technologies for the collective benefit. Further, cooperative relationships based on mutual trust allow structural changes since the cooperative system, in conjunction with local communities (industry, academia and government) binds with trust through such processes as interpersonal communication networks, the evaluation of performance by the local community which constantly evaluates company performance, strong information-sharing and mobility of labour among the firms.

Geographic proximity is important in the industry context for the interaction and development of groups of firms and institutions (Brusco 1982; Dei Ottati 1996; Enright 1998; Japan Small Business Research Institute 1997; McEvily and Zaheer 1999; Piore and Sabel 1984; Porter 1990; Porter 1998; Sabel 1993; Wiklund and Karlsson 1994). In defining industry boundaries, groups of firms or related industries may be clustered geographically, as in industrial districts (Brusco 1982; Dei Ottati 1996; Grandori 1999; Harrison 1992; Japan Small Business Research Institute 1997; Piore and Sabel 1984; Porter 1998; Sabel 1989; Saxenian 1994; Wiklund and Karlsson 1994) with the context for analysis focusing on location. Industrial districts are areas in which firms, specialising in different stages of production, effectively act as one large firm within a regional area (Jacobson and Andréosso-O'Callaghan 1996).

Factors in the localisation of industries which have been identified are: physical conditions; demand conditions; political/cultural influences; hereditary skill and technological spillover; growth of subsidiary trades and intermediate outputs; and the emergence of a local market for skills required by the industry (Jacobson and Andréosso-O'Callaghan 1996; Krugman 1995; Marshall 1920). Marshall described a system in which clusters or agglomerations of firms allow economies of scale, location advantages and a set of local conditions which are "external to the individual firms, but internal to the cluster" (Dunning 1995:462). Learning within a specialised district facilitates labour market skills and critical knowledge spills over from nearby firms, thus localisation facilitates specialisation and economies of scale in the production of intermediate goods. The use of industrial districts or clusters to analyse relationship structures mixes the economic and social to understand the effects of geographically clustered competition (Enright 1998; McEvily and Zaheer 1999; Porter 1990; Porter 1998; Pouder and John 1996). It cannot be assumed that firms in regions are homogenous and have similar levels of performance (McEvily and Zaheer 1999). However, Perrow (1986) refers to the clustering of players within a network and to the fact that networks should be seen within the context of dealing with the environment. Firms in one isolated regional location face the same environment thus some ‘givens’ may confront systems of firms, ‘inter-organisational fields’ in an environment (Nohria and Eccles 1992). If the environment is taken to be a ‘constant’ then differences in strategies and relationships will be independent and identifiable. Ginsberg and Venkatramen (1985) support study of individual industries, especially in the examination of the contingency approach to strategy, since this avoids the problems of comparability when moving across multiple industries.

Section 2.2 has shown that there are a number of theoretical perspectives on industry definition. It is important to be aware of the diversity of strategic boundaries of firms and the very different ways in which they interact in their competitive systems. This study used a number of concepts in its view of the case industry. Industry boundaries are blurring and firms themselves may not agree on the nature of the industry and how its activities are structured. The classical and TCE economics views fail to offers a complete view of the current reality of firm governance and activity structures and requires the addition of social or relational oriented elements. Since resources are increasingly employed *among* firms they must take into account their interactions with other firms in exchange transactions and must also include dynamic market factors, not simply internal, rational control. Organisational theory and population ecology are powerful tools for analysing patterns of birth, success and failure within co-located or strategically close groups of companies. The New Zealand wine industry has shown strong patterns of growth and has followed common collective processes of market development and positioning. Strategic groups can be identified among groups of firms that compete in similar ways in similar markets. How firms in an industry set their strategy is strongly influenced by how managers perceive their industry and its dynamics and an industry recipe can be identified among groups of firms. Industries are part of the social and historical network context in which economic action is embedded. Transaction flows and physical flows and structures in exchange are complemented by social systems within industries, which evolve reflexively: the industry shapes perceptions and behaviour among players but is also shaped by players in the industry. An industry may be seen as a complex social system, in which the rules and procedures are unannounced but norms are learnt and amended, one that may not be reduced to a simple sum of its parts and in which individuals do not have to know the roles everyone else plays nor do they need to carry a mental map of the entire system. Finally, geography matters – location and proximity remain important in the development of an industry, in terms of resources, human and physical, learning, institutional environment, cultural conditions technological stage.

To these concepts which identify the commonalities among the case firms are added dimensions on which they may have diverging views or perceptions: how to structure their business within their networks and relationships and how to compete and/or cooperate within the firm's value creation (Möller and Torronen 2003; Möller and Svahn 2003) system (Normann and Ramirez 1993; Ramirez 1999) which are discussed in the next two sections.

2.3 Approaches to Understanding Strategy

Having set out the industry context for this research, and to address the key question of how firms use their relationships in strategy, there are a number of theoretical approaches to strategy at the individual firm level. This section identifies and discusses the main ones, the classical (planning) approach, the resource-based view (RBV), the dynamic capabilities view (DCV), some more recent views of complexity and hyper-competition, and relates them to how they are used in this study. The key underlying concepts here are views of firms as: atomistically positioning themselves competitively in the classical, Porterian view; through firms competing on the basis of resources; through to the analysis of firms which compete based on dynamic capabilities, which can include relationally based competences. Many of the concepts of strategy process within the classical school remain valid as analytical frameworks but approaches to the content of strategies and the context for strategy are changing from an atomistic to an embedded view of the firm and from a rational, calculative, intentional view of strategy in a stable or static environment to more recognition of 'gut-feel', simple rules, creativity and emergence in dynamic turbulent international environments. These more relational views of strategy are linked to network theory in Section 2.5.

2.3.1 Overview and the 'Classical' view of strategy

There are competing theoretical perspectives in strategy (Lewin and Volberda 1999) and an absence of shared definitions, though this is also indicative of pluralism (Eisenhardt 2000). Strategy is seen as eclectic, borrowing from areas such as economics, organisation theory, sociology and psychology (Gadde et al 2003). Håkansson and Snehota (1989) express the basic assumptions which are made in the classical approach to strategy about methods of analysis and how to compete. The environment is relatively stable, and strategy is formed on the basis of competitive positioning. The environment of an organisation is faceless, atomistic and beyond the influence or control of the organisation. Opportunities cannot be created and resources are controlled hierarchically (contractually). Internal resources can be reallocated to adapt to environmental conditions, thus improving effectiveness. Environmental conditions change continuously so frequent if not continuous change by the organisation is required. The 'fit' approach to strategy matches the organisation's activities to its environment. 'Stretch' involves leveraging resources and competencies to gain access to new markets and new opportunities (Hamel 1989; Hamel and Prahalad 1994; Johnson and Scholes 1999). The 'fit' approach is based on the industrial organisation school (Porter 1980), which relies on analysis of industries and competition within them and on managers choosing the most attractive (ie profitable) industry and fitting strategy to meet the forces within that industry. The 'stretch' approach is based on a view of leveraging the firm's existing or future resources and capabilities to achieve growth.

In the classical approach, strategy formation and development are explained by managerial intent - which can involve planning, command or logical incrementalism; by organisational processes (political and cultural) and external factors - based on industry or organisational paradigms, political processes of bargaining and negotiation, by "muddling through"; and by imposed strategy in which strategy is formed through enforced choice or environmental constraint (Johnson and Scholes 2002). To these may be added natural selection and visionary leadership in strategy (Bailey 1995; Johnson 1992; 1990). Two main models or patterns of strategy have been identified: the first involves continuity, with incremental change, even flux. The second entails transformational change, which may be fundamental but infrequent. The combination or interplay of these two phases in organisations has been described as punctuated equilibrium. Porter's structure-conduct-performance approach (1980) is based on industrial organisation theories within the context of the industry structure in which it competes, choosing an attractive industry, deterring entry and holding a competitive position, though Lewin and Volberda (1999) think there has been more emphasis in the literature on structure (context) rather than conduct (strategy). Porter's three generic strategies (Porter 1980) - focus, differentiation and cost leadership - remain as strategy-in-use (Jarzabkowski 2004).

To understand how firms make strategic decisions, the concept of intended, or deliberate strategy is contrasted with that of emergent or realised (Johnson and Scholes 2002; Mintzberg and Waters 1985). Intended strategy is seen as the result of deliberate planning based on a systematic approach by managers. However, as Johnson and Scholes point out, this does not explain how strategies come about or are 'realised'. Realised strategy is that which is actually implemented in practice. Neither of these approaches gives a complete picture of how strategy emerges in an organisation and in terms of changing environments it may be more relevant to consider realised strategy (what the organisation actually does) rather than intended (what it meant to do). Mintzberg and Waters (1985) propose a number of models or types of strategy, based on their distinction between deliberate and emergent strategies. These are: planned, entrepreneurial, ideological, umbrella, process, unconnected, consensus and imposed.

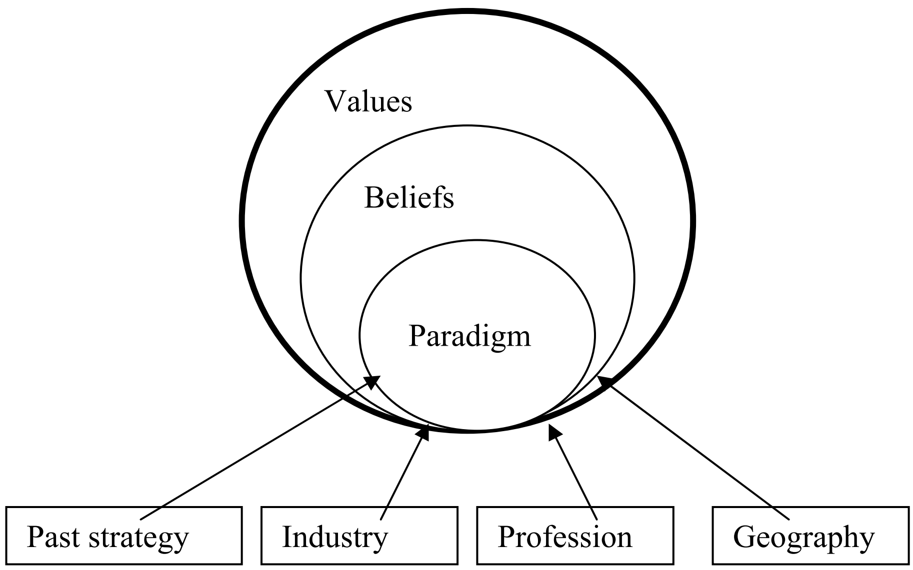
Section 2.2 identified the industry recipe and ways of doing things as an influence on firm behaviour. Firm or organisational culture is influenced by industry level factors and vice versa (Johnson and Scholes 1999)[2]. Diagram 2.1 offers a model of the layers of influence on organisational culture. The organisational paradigm is defined as the taken for granted assumptions, routines, and the collective experience of actors within the firm (Johnson and Scholes 1999). At the industry level this has been termed the industry recipe (Spender 1989). These assumptions, which may be deeply tacit and unstated, are influenced or built up by a number of factors, of which the most crucial are: past strategy, industry, profession and geography (Johnson and Scholes 1999). Past strategy encompasses the long-term momentum or pattern of strategies built up by the firm. Industry factors can entail, for example, mobility of employees or patterns of competition. The profession may have a strong influence, through such factors as institutional bodies or training programmes. Finally, national or regional geography can play an important role in influencing the pattern of firm behaviour. If issues of organisational and industry culture have a key role in the behaviour of firms within industries, they must necessarily shape how firms view their business relationships.

Within the organisational culture, values are deeply held determinants of behaviour. Johnson and Scholes (1999) believe that values can be easy to identify in mission statements and the like but that they may be vague. Values may be seen as ethical standards (Johnson and Scholes 1999) or as essential guiding tenets and principles (Collins and Porras 1991). Linked to the organisation's vision and purpose, Collins and Porras (1991) establish tests for what they term 'core values' based on their longevity and the organisation's vision of the future. Beliefs can also be easy to identify since people in organisations can talk about them and they are more specific in nature that values (Johnson and Scholes 1999). Beliefs are more tangible in that they represent convinced opinion about what is true or real within the organisation's context. The organisation paradigm and its beliefs are encompassed within the organisation's values (Johnson and Scholes 1999; Schein 1985). Values and beliefs are

[2] Issues of national culture are outside this study, whilst local geographical boundaries *are* relevant in defining the industry sector.

expressed in strategy generally and thus in specific strategies such as relationships and interactions with other actors.

Diagram 2.1: Influences on organisational culture



Source: Adapted from Johnson and Scholes (1999) and Schein (1985).

Strategic decision-making has traditionally been seen as a combination of the boundedly rational and political, but may be best described as political processes in which strategic decision-makers sometimes have competing objectives and limited cognitive capability (Eisenhardt and Zbaracki 1992). The key distinction between rational and incremental decision-making is in the difference between how comprehensive decision-making and the integration of those decisions into strategy might be, and how these may depend on the setting: thus decision-making is rational in stable environments, incremental in unstable environments. Strategic decision-making may be characterised by inertia, momentum or simply by habit, resisting all but modest changes (Fredrickson and Iaquinto 1989). Strategic processes become routinised, with behavioural rigidities setting in and 'habit becomes a substitute for thought' (Tushman and Romanelli 1983:193). Thus patterns of strategic decision-making set in and with increasing size strategic decision-making takes on increasing sophistication and rationality.

Some empirical research on the choice-determinism debate in strategy has explored strategic management as a rational, objective process, in which executives can have effects on strategic decisions, versus the view that strategic decisions are largely controlled by the external environment (Hitt and Tyler 1991). This showed elements of both the rational normative, external control and strategic choice perspectives of strategic decision-making, suggesting that strategic decisions cannot be accurately modelled by any one perspective alone. It confirmed that executives' approaches to strategic decisions (Fredrickson 1985) were both rational and intuitive at the same time (Hitt and Tyler 1991). Industry context is significant: criteria used in making strategic decisions may vary by industry or 'organisational field' (Johnson and Scholes 2002). Executives may use rational analytical approaches but their strategic decisions may also be affected by their firms' industry and their own personal characteristics (Hitt and Tyler 1991). Strategic planners must recognise their cognitive biases and attempt to formulate strategies that accurately reflect the firm's strategic situation (Barnes 1984).

2.3.2 The Resource-Based View of strategy

This view of strategy is based on securing resources and competing on the basis of the uniqueness, inimitability and access to new markets that these resources bring (Helfat and Peteraf 2003). The environment is seen as more unstable and dynamic. The resource-based view (RBV) of the firm sees it as a bundle of resources, primarily internally developed and sustained (Wernerfelt 1984). Creating a capability or accessing a resource may be too costly for one firm, however, because of its historical context, path dependency, social context and causal ambiguity (Barney 1999). Acquiring a capability may be prevented by environmental constraints, the effect of value, strategic inflexibility and difficulty of leveraging the acquired capabilities or resources (Barney 1999). These restrictions render 'nonhierarchical forms of governance' more attractive options to firms (Barney 1999). The RBV thus recognises the importance of external resources as complementary to its emphasis on the independence and internal view of the firm. Firms maintain a specialised independent competitive stance in networks and relationships, especially in their core competence (Hamel 1989; Hamel and Prahalad 1994) through their value in use, rarity, inimitability and organisationally embedded nature (Barney 1991). Capabilities can include such intangible resources as core competencies and tacit knowledge, which may be operationalised as tacit skills (Ambrosini and Nowman 2001). The RBV centres on firm-specific capabilities and assets based on efficiency and effectiveness (Rumelt, Schendel et al. 1994; Wernerfelt 1984), which enable them to lower costs, or raise product quality or performance. To this needs to be added a stronger external focus.

Taking a relationship view of resources, Uzzi (1996) proposes network roles as sustainable strategic resources and notes that network and relationship roles as resources appear to generate returns that could be best described as rent (ie payment to the owner for the use of such resources) and that players use such assets tactically to derive rents from their roles (Uzzi 1996:423). Firm investment in relationships and network roles leads to the concept of 'relationship specific assets' (Håkansson and Snehota 1995; Ford 1997). Section 2.4 will argue that the 'stretch' development in strategic thinking and strategy formation, whereby organisations leverage the resources available to them to achieve ambitious and visionary goals (Hamel and Prahalad 1993), is central to the motivation towards and practice of network-based strategies. Whereas the classical Porterian view is based on a rational quantifiable view of sustainable competitive advantage and long-run profitability, more recent views take on responsiveness to higher velocity environments (Eisenhardt and Martin 2000), flexibility and tacit knowledge and routines as capabilities. Hamel and Prahalad (1993) present temporal strategic options as being between short-term performance improvement plus opportunity management and long-term recipe change plus value creation. In terms of time considerations again, the latter offering has more consonance with network-based strategies.

2.3.3 The Dynamic Capabilities View of strategy

Building on the RBV, the dynamic capabilities view (DCV) of strategy sees the firm based on its capabilities and how these arise from skills, knowledge and learning. The environment is dynamic and the firm must learn, change and be flexible to compete successfully (Eisenhardt and Martin 2000). To understand what capabilities are brought to and used in interfirm relationships, there is a need to define what these might be. Taking an evolutionary economic view of firm capabilities the firm is made up of two distinct but changing elements: its intrinsic core, which comprises inimitable capabilities, which are incontestable and unique and ancillary capabilities, which can be contestable and not unique (Nelson and Winter 1982). The boundaries of the firm are defined by the extent to which ancillary capabilities are internalised or bought through the market. This in turn depends on:

- The strength of the firm's capabilities relative to those which could be bought;
- The transaction and governance costs in making or buying;
- These factors change over time, and are influenced by organisational learning (Nelson and Winter 1982).

The DCV view recognises that synergy occurs between firms (Eisenhardt and Galunic 2000). Mahoney and Pandian (1992) argue for contestable and idiosyncratic synergy. The former is a combination of resources that create value but are competitively available to all players. The latter involves an enhanced outcome that is specific to the particular resources combined, and where substitutes are not available to all. Idiosyncratic synergy involves forms of knowledge which are found in the individual and collective behaviour of people in firms as they acquire and reveal information to each other. Mahoney and Pandian see these as 'ways of acting that are competitively valuable' and that these vary from firm to firm depending on the industrial context (ibid).

On the connection between cooperation and competition, Gambetta (1988) argues that greater trust and cooperation are not always desirable since a certain level of competition is beneficial to performance, fostering technological innovation, ameliorating services etc. Indeed beyond a certain threshold additional co-operators can jeopardise the effectiveness of co-operation (Gambetta 1988; Powell, Koput et al. 1999). The problem is to find an optimal mixture of cooperation and competition, rather than adopting an extreme position: cooperation and competition are not necessarily alternatives – they can and do coexist. There is not a causal relationship whereby cooperation generates beneficial competition: it is more likely to be the reverse: harmful competition may be a motive for seeking co-operation (Gambetta 1988).

The DCV focuses specifically on firms in environments of rapid technological change. It sees competitive advantage as stemming from the firm's internal processes, its assets and its evolutionary path (Teece, Pisano et al. 1997). The durability of the firm's position then relates to market demand, replicability and imitability. The DCV builds on the RBV and stresses how firms exploit internal and external competences in the context of a changing environment. Teece et al (1997) argue that the key difference between the two earlier approaches is that strategy was about a rational choice of investment or assets alternatives (Dierickx and Cool 1989). Under the DCV it is about new capabilities, skills, knowledge, know-how and learning:

> The firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. (Teece et al 1997:16)

Though 'complex, structured and multidimensional', DCs extend, modify or create ordinary capabilities (Winter 2003). They involve long-term commitments to specialised resources and should be focused on a specific objective: user needs, unique and difficult to replicate (Hamel and Prahalad 1994) and entail a need to understand how the specific attributes of a firm 'affect its prospects in a particular competitive context' (Winter 2003:995). DCs can be of different orders or levels, entry, threshold level operational capabilities, through to higher order-dynamic capabilities (Helfat and Peteraf 2003; Winter 2003). DCs are seen as yet another way of explaining heterogeneity and this may be seen in their lifecycles and the ways in which they develop and change over time (Helfat and Peteraf 2003). Capabilities can emerge from asymmetries which arise out of weakness as well as inimitable uniqueness (Miller 2003).

2.3.4 A relational view of strategy

Turning to cooperative skills or relational capabilities, Anand and Khanna (2000) refer to alliance capabilities and relate these to differential value creation in alliances. McEvily and Zaheer (1999) address different competitive capabilities through an examination of firms' embeddedness in networks of ties and show that sources of competitive capability can be embedded externally in firms' network resources, especially their network of 'bridging ties and linkages to external institutions' (ibid:1152), with regional institutions particularly important. Network resources are the informational advantages associated with a firm's network of ties (Gulati 1999; McEvily and Zaheer 1999) and these resources both enable and constrain firms and add external capability generation to the internally focussed RBV. McEvily and Zaheer (1999) add to understanding of firm heterogeneity through their analysis of networks, questioning economic views of firm atomism, and from that the strategic view of autonomy.

Arguing for the evolution of cooperation, Doz (1996) sees a deterministic bias in process studies of alliances in which formation conditions and partner features determine relationship outcomes. Alliances have dynamic processes and sustained cooperation leads to coevolution in which firms can adapt and learn rather than merely implementing the design and set objectives. Doz (1996) found adaptive processes rather than purposeful vs emergent strategies in alliances, concluding that views of strategy should transcend this dichotomy towards adjustment and adaptation, evolution and learning. The co-evolution approach (Eisenhardt and Galunic 2000; Lewin and Volberda 1999) takes this further, arguing for the emergence of new organisational forms within the context of, and alongside the rise and decline of industries, based on international organisational adaptation and change in high-velocity turbulent environments, though again this is restricted and enabled by the surrounding institutional system.

2.3.5 Recent views of strategy

Lengnick-Hall and Wolff (1999) describe three core logics of approaches to strategy: capability, in which existing strengths are applied creatively to new situations; guerrilla, which is not applied to the research context of the New Zealand wine industry here (though it may apply more recently in its markets), in which solutions are short-lived; and complexity, which again does not apply directly since transformation is not as relentless in this industry as it is in say high technology contexts. High-velocity markets require newer approaches to strategy: simple rules and patching allow speed of decisions and responses (Eisenhardt and Brown 1999; Eisenhardt and Sull 2001). Hypercompetition relates to the rapidly escalating dynamics of global markets and the shortening of timescales in those markets (D'Aveni 1995). This means that competitive advantages become less sustainable and, whilst every advantage erodes eventually, this process has been accelerating apace over the last 8-10 years. According to D’Aveni (1995) the key features of hypercompetition are:

- Rapidly escalating price-quality positioning;
- Shorter first mover advantage;
- Frequent unexpected new entrants;
- Repositioning by incumbents;
- Shorter product design and lifecycles;
- Focus on tacit/knowledge-based advantage;
- Boundary (market and industry) redefinitions;
- Protection and invasion of established product or geographical markets;
- Greater investment in products and alliances.

Many of these features apply to the context of the New Zealand wine industry.

Theoretical views of *influences* on strategy formation processes within the firm are important in this study, though not the actual internal development processes themselves. It was concerned with reported perceptions, influences on and outcomes of the decision processes. Thus, the data in Chapter 4 are about how the firm reported its relationships and strategies, and interpretation and theory building were carried out to understand the drivers of or influences on the diverse relationships and networks identified among the industry cases. One of the key influences on a firm’s strategy is organisational and industry culture. These are the results of past strategy, industry factors, aspects unique to the profession of those involved and geography. Building on the view of the industry set out in Section 2.2, in which firms within a geographically situated industry are seen as following similar approaches to positioning in product and consumer markets, the key strategy concepts used here were to identify what approaches the firms took to resources (from the RBV) and capabilities (from the DCV) in achieving the resulting outcomes of the strategies.

Section 2.3 has described five key ways of viewing strategy, which build on and interact with each other as theoretical explanations of firm strategy. This study did not select one approach as more valid than the others but, as with Section 2.2 on industry, used a number of common concepts from across the strategy literature. There remains a debate in the strategy literature on the balance between intentionality and deliberate enactment of strategy and its emergence and realisation. These two notions were used to conceptualise broad processes of strategy formation as they are paralleled in the business networks literature and are thus important converging themes in the two bodies of theory. The study took the influence of the organisational-personal, industry and environmental contexts on strategy processes and content very much into account and was informed by the idea that these are expressed in the beliefs and values of firms as well as in their strategies and how they achieve them through resources, skills and capabilities. From the RBV, firms compete on unique resources, which may or may not be obtained from external interactions. Resources, and how critical these were, and where firms obtained them were thus identified for the case firms. From the DCV, firms compete on both internal and external resources and capabilities. Activities and capabilities acquisition were also identified for the case firms, again assessing their criticality in strategy. An emerging relational view of strategy sees firms adding relationships to their portfolio of skills, knowledge and resources, and this supports the focus on whether and how relationships were used in securing resources and capabilities.

In bringing together strategy content (what the firms actually did) and process (the influences on their strategies) the literature is unclear as to the balance in reality between the intentional and the emergent: what firms achieve in an intentional way and what emerged. The strategy literature is taking on more relational approaches (Ahuja 2000; Gulati 1998; Gulati, Nohria et al. 2000) and, as will be shown in the next section, the literature on relationships and networks is taking on more strategic intentionality in the management of these linkages (Ford, Gadde et al. 2003; Gadde, Huemer et al. 2003; Möller and Svahn 2003).

2.4 Approaches to Relationships and Networks

Having set out the industry context for this study and described the key strategy concepts used in it, this review now addresses ways in which business relationships are available to and used by firms, indeed Araujo and Easton (1996) describe 10 different theoretical views on networks. This section defines what kinds of business relationships can be identified and then different ways in which they can be used in strategy. These are then related to the way they were applied in this research. The key concepts here are the value-creating characteristics of relationships and networks and how these are perceived and used by firms in an industry. This research was based on the view that firms are embedded in an industry context (Section 2.1 and 2.2) and that the firm's position and the nature of its direct or indirect ties shape strategy and that the firm in turn shapes its position and networks. Definitions are important here because this is a complex field with a varied vocabulary (Easton 1992; Easton and Araujo 1993; Möller and Svahn 2003), and indeed:

> The field of network research is characterised by a high degree of theoretical and conceptual heterogeneity (Ebers and Grandori 1997:265).

In network research there is a distinction between that which is descriptive, explanatory or normative, and in terms of methodology between using networks as a metaphor - using qualitative approaches to describe and explain network structures and processes - and networks as a tool kit - a sociometric technique (Araujo and Easton 1996). The present study was positioned as descriptive and explanatory, having as its objective to explain certain aspects of network phenomena, namely their use in firm strategy.

In reviewing why and how a firm interacts with other firms, this section deals with the motivations for entering such linkages, the processes of network formation and maintenance, and the value-creating functions of such relationships and networks. As the focus was on a firm level view of strategy, two important areas of the literature on networks are outside the scope of this section. These are the role of outside agents and brokers (Birley 1985; Easton 1992; Ford 1997; Håkansson and Snehota 1995; Johanson and Mattsson 1985; Nohria and Eccles 1992; Wilkinson and Young 1994; Yarnell and Peterson 1993) and their impact on national economic performance (Araujo 2002; Australian Bureau of Industry Economics 1991; Australian Manufacturing Council 1990; Castells 1996; DTI 1994; Enright 1998; Gelsing 1993; Porter 1990; 1998; Wilkinson 1998).

2.4.1 Defining relationships and networks

There is much diversity in the terminology and definitions used in relation to business networks and relationships. Ebers (Ebers 1997) finds the literature substantial, fragmented and disjointed, but the term sufficiently abstract for it to have wide appeal. Key features of firm interaction in networks involve: time, especially the consideration of future value (Ballantyne 1995; Gassenheimer, Houston et al. 1998), complexity, multiple players, active participation, reciprocity, mutual adaptation and change, embeddedness and interdependence. Common elements discussed in the literature include a focus on the identity of the parties, how networks and relationships form, their motivations and views of outcomes. Relationship marketing, a particular kind of interfirm business relationship, aims to 'achieve and improve exchange value in terms of reciprocal benefits, mutual trust and shared costs'(Ballantyne 1995:177). Within the concept of markets as networks, linkages between firms are generally continuous over time, often complex and take place within a web of interactive relations between individuals in organisations (the network). Key features of such networks include:

- Active and reciprocal involvement of both parties, a 'mutual orientation' (Ford 1990).
- Through adaptations actors mobilise and use resources controlled by other actors in a network.
- The strategic identity of an organisation is created primarily in interaction with its counterparts.
- The organisation is embedded in a web of relationships, interdependencies, which use complementarity or competitiveness.

The distinction emerges in the literature between networks of firms (Håkansson and Snehota 1995; Lipparini and Sobrero 1994; Uzzi 1997; Walker, Kogut et al. 1997; Wilkinson and Young 2002) and the networked organisation (Ghoshal and Bartlett 1993; Jarillo 1993; Miles and Snow 1992; Möller and Svahn 2003; Nohria and Ghoshal 1997; Thorelli 1986). The present research focuses on networks of firms and not on the internal structure of firms. There is a wide range of definitions of networks and relationships offered in the literature (Benson-Rea and Wilson 1994) with many permutations on the terms 'networks' and 'networking'. For small firms:

> A business network is the co-operation and collaboration of a number of SMEs (small and medium sized enterprises) to build critical mass, to achieve the competitive advantages of scale, scope and speed, to compete as a larger firm, by undertaking projects in common, such as joint R&D, joint processing or manufacturing, or joint marketing, (Fournier, Munro et al. 1993:i).

For economic development:

> Networks are the product of deliberate effort aimed at improving an element of a firm's competitiveness...Networking refers to the process of building relationships with other firms and infrastructure to develop and augment core competencies, (Australian Manufacturing Council 1990:6).

And:

> A network involves a form of associative behaviour among firms that helps expand their markets, increase their value-added or productivity, (or) stimulate learning (in order to) improve their long-term market position, (Bosworth and Rosenfeld 1992:19).

For strategic positioning:

> Networks involve collaborative relationships in order to achieve strategic objectives relating to their respective competitive, production and/or market positions. In addition, networks involve more that two companies and all parties are actively involved in various collaborative exchanges within the network. (Benson-Rea and Wilson 1994:3).

Möller and Svahn (2003) describe the management of strategic nets, which are intentionally created business networks. A net is situated within a network (Hite and Hesterly 2001) and has its own goal, structure, level of embeddedness, governance system and an underlying value creating system (VCS) (Möller and Svahn 2003; Parolini 1999). Different nets have different ontologies about how value is created. A network organisation is a strategic net with a specific focus or project and is different from a network of organisations, which may be vertically, horizontally or multi-dimensional/diagonally linked firms.

The distinction also emerges in the literature between networks, the noun and networking, the verb (Easton 1992). The former are considered to be the tangible outcomes of interaction over time and the latter is seen as intentional, relationship-building behaviour, establishing and exploiting ties (Ebers and Grandori 1997), though the literature uses them loosely and sometimes interchangeably. The vocabulary of relationships is reviewed by Ramirez (1999) who finds reference to connected relationships as: lattices (Gore 1985), networks (Jarillo 1993), webs (Hastings 1993), constellations (Normann and Ramirez 1993), and ecosystems (Moore 1996). Nohria and Ghoshal (1997) conceptualise the MNC as a 'differentiated network'. Child and Faulkner (1998) make a distinction between networks - 'close but non-exclusive relationships' - and alliances - 'a joint enterprise'. Networks arise from resource dependency based on complementarity and synergy (Child 1998). Positions in a network are the result of investments in exchange relationships (Johanson and Mattsson 1987). A narrow definition of position involves exchange relationships and the identities of the counterparts in those relationships and a broader definition takes into account the role of the firm in the production system (Johanson and Mattsson 1987).

The strategic management literature is replete with studies and conceptualisations of the nature of co-operative[3] strategies, strategic alliances (SAs), joint venture (JVs) and networks (Child and Faulkner 1998; Das and Rahman 2001; Das and Teng 2001; Geringer and Hebert 1991; Lorange and Roos 1992). Gomes-Casseres (1994) points out that collaboration and co-operation are the key elements for new thinking in business strategy, particularly in relation to future developments in global competition and increasing access to skills, resources and knowledge in international markets. Patterson, Styles et al (1998) offer the term 'international business partnerships':

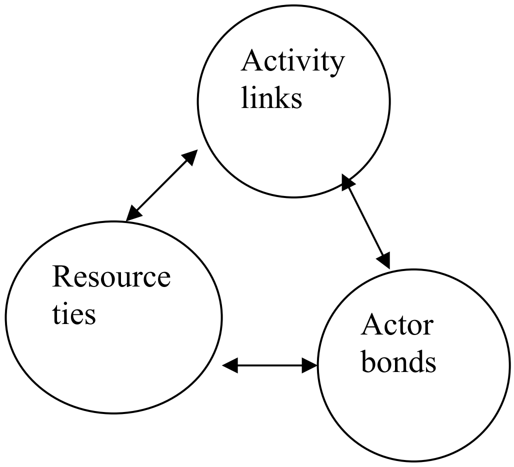
> an ongoing, formal business relationship between two or more independent foreign firms to achieve common goals, such as exporter-distributor relationship, international joint ventures (IJV) etc, (ibid:25).

This definition meets that of a strategic net. Davies uses the term 'partnering' for everything along the value chain from arm's length market relationships to ownership (Davies 1998). Co-operation involves 'complementary co-ordinated activities ... to achieve mutual outcomes' (Hewett and Bearden 2001). Active participation is required and cooperation is positively correlated to success (Morgan and Hunt 1994). In its broadest sense co-operation can be seen as agents agreeing on any set of rules and then observing them during their interaction (Gambetta 1988). Crucially, agreements need not be the results of previous communication but can emerge implicitly in the course of interaction itself, and rules need not be written but can be established as a result of habit, prior successful experience, trial and error, and so on. Child and Faulkner (1998) see alliances as the normal agent for cooperative strategy, defining them as strategic in that they are created in response to new opportunities or challenges, seeing SAs, JVs, collaboration and consortia as being about organisational learning and that they 'should be structured towards that end'. They see other forms of co-operation, such as virtual organisations, networks and outsourced corporations, as merely about capability substitution and seem to deny the strategic importance of looser arrangements which can develop informally over time and evolve into strategically important relationships, which is the position taken by the industrial marketing approach.

[3] It should be made clear that the organisational form, the co-operative, is not specifically dealt with in this discussion.

The Industrial Network approach of the IMP (Industrial Marketing and Purchasing) group, which views markets as networks (Ford and McDowell 1999; Håkansson and Johanson 1990; Håkansson and Snehota 1995), has its theoretical foundations in dynamic industrial economics, sociology and organisation theory (Mattsson 1997) and evolved from the understanding that business interactions form long-terms relationships. A critical set of concepts in the IMP approach to analysing the structure of interfirm relationships is that of activity links, resources ties and actor bonds, the so-called R-A-A analysis (Håkansson and Snehota 1995). The R-A-A approach forms what Håkansson and Snehota (1995) call the 'three substance layers of business relationships' between which there is an interplay and which can be identified at the level of the company, the relationship (dyad) or the network. Resource ties involve the resources which are exchanged and which connect firms, a process which can itself become a resource (along with technological, physical and intangible resources) (Barney 1991; 1999). Network roles can also be sustainable resources (Uzzi 1996). Activity links are technical, commercial, administrative and other activities of firms which can connect them (Porter 1979). Finally actor bonds connect and influence the actors and involve such elements as commitment, identity and trust (Håkansson 1995:26-34). Commitment binds the actor by her/his actions to beliefs that sustain the activity and the involvement (Salancik 1977). This approach explicitly describes the human, physical and process linkages between organisations, though it does not attribute weightings to any of them. Building on the R-A-A approach, Möller et al see relationship or network management as a set of strategic capabilities and the structures, forms or types of value creating systems - nets- differing in terms of the level of the determination of their value activities (Möller, Svahn et al. 2002). Where the value activity is located influences the structure of the relationship. The RAA model is shown in Diagram 2.2.

Diagram 2.2: The R-A-A Elements



Source: Håkansson and Snehota, 1995:35

Resource collection refers to the unique mix of capabilities and resources a company can access or mobilise, while resource constellations are connected resource ties, directly to other companies in a direct relationship and also to companies with which it is indirectly connected through other relationships. Firms are engaged in activity chains, according to Håkansson and Snehota, and the conjunction of chains are parts of an overall pattern within a network. The components of the RAA model operate at different levels and these are summarised at the firm, relationship and network levels in Diagram 2.3.

Diagram 2.3: R-A-A in relationships and networks

		Level		
		Company	**Relationship**	**Network**
Factor	**Activities**	Activity structure	Activity links	Activity pattern
	Actors	Organisational structure	Actor bonds	Web of actors
	Resources	Resource collection	Resource ties	Resource constellation

Source: Håkansson and Snehota, 1995:45

2.4.2 General characteristics of relationships and networks

Inter-organisational networks (IONs) organise and govern exchange relations between two or more firms and involve micro-level ties of resources flows, information flows and flows of mutual expectations (Ebers 1997). The macro context includes institutional, relational, PESTEL factors (political, economic, social, technological, ecological and legal) and regional contingencies (ibid). Ebers (1997) argues that there are many distinct explanations, overlaps and partial views of IONs, and that whilst much is known about emergence factors, less is known about what influences the organisational forms of networking relations. In the firm's interactions with others, firm capabilities are not limited to its ownership boundaries (Dunning 1995) and these boundaries do not necessarily set the parameters of endogenous influences either since firms are influenced by the 'collaborative agreements they have with other firms' (ibid:481). The properties of transactions determine the efficient boundary of the firm according to the nature of the asset and over time along the experience curve. As firms gain more experience, asset specificity reduces and more market contracting occurs (Reve 1990). From a strategy point of view it is control in governance that matters rather than ownership (Reve 1990). Formal and informal governance mechanisms reinforce and complement each other and are likely to be embedded with each other rather than the social or the rational-legal taking primacy:

> Interfirm networks in general, and different forms of network in particular, achieve…results at a cost. While the costs of market and firm coordination have been widely analysed, the enthusiasm for networks have (sic) led to neglect the internal and external costs that they entail (Grandori 1999:13).

A differentiation may be made between formal and informal relationships. All firms have informal relationships but not all may have formal ones. Formal relationships can include alliances, a formal agreement between two or more business organisations, which can take the form of equity joint ventures, non-equity arrangements, licensing, franchising, management or long-term supply contracts (Arino, de la Torre et al. 2001). The arrangements can involve two firms (a dyad), several firms (a consortium), a number of firms along the value chain such as with suppliers or distributors in vertical networks (Brown and Butler 1995), or with competitors at the same position in the value chain in horizontal networks (Brown and Butler 1995), or a combination of these within a value system. Birley (1985) makes the distinction between informal and formal networks. Social networks, which comprise relations with family, friends and colleagues are defined as informal and those with providers of professional services and advice are defined as formal networks. These former relate to Ramachandran and Ramnarayan's 'inner circle' of friends and family (1993).

Golden and Dollinger (1993) relate the use of vertical and horizontal networks by small firms to the Miles and Snow strategy typology (1978), and liken the 'conjugate' and 'confederate' strategies to vertical and horizontal networks respectively, finding that few small firms actually used these (1993:50). Horizontal networks are made up of firms from a single sector (Fournier, Munro et al. 1993) where such firms collaborate to share resources for example (Bosworth and Rosenfeld 1992). Vertical networks are ones in which suppliers are linked to larger manufacturers (Fournier 1993) or they are at different stages in the production chain (Bosworth and Rosenfeld 1992). Horizontal and vertical networks are principally concerned with single sector networks, although they can also be cross-sectoral (Biggiero 2001; Fournier, Munro et al. 1993). Nooteboom (1999) adds the term 'diagonal' networks to clarify networks across different industries. Biggiero (2001) refers to hyper-networks, involving many connected vertical and horizontal interorganisational networks. Networks may involve a focal firm and imply some sort of hierarchy, or they may be heterarchical, implying a more egalitarian balance of firm size, power and influence. Johanson and Mattsson (1992) identify a number of dimensions of firm interaction in networks which serve as a summary of their general characteristics,:

- The function of the firm in the production system;
- The relative importance of the resources of the firm in relation to the other players in the network;
- Whether positions are positively or negatively connected to each other (when the position of one is strengthened, the position of the other is strengthened or weakened);
- The strategic actions of the firm to influence its position in the network.

2.4.3 Formation of relationships and networks

A critical question in the literature is how relationships and networks are formed. Long-term exchange between firms in industrial or business to business markets is embedded in networks of social relationships and involve actor bonds, activity linkages and resource ties (Ford 1997; Håkansson and Snehota 1995; Johanson and Mattsson 1994). The foundations of cooperative interactions and relationships are based on trust which is built up over time. These relationships are bonds which may not easily be broken, and which are by their very nature long term (Easton 1992). The importance of time is emphasised in the context of trust and its role in building bonds between actors. The origin and nature of the firm's motivation to cooperate may also build up over time. Three associated concepts of trust, partner selection and motivations are now discussed.

2.4.3.1 Trust

Network explanations of interfirm relations stress trust, and see it as central to relational behaviour (Hewett and Bearden 2001), in the formation of business relationships and networks, and in the business exchange process (Armstrong and Siew 2001; Child 2001; Morgan and Hunt 1994). The process of forming networks among firms is primarily concerned with building trust and developing a network business culture (Fournier, Munro et al. 1993) and lack of trust has been identified as an obstacle to the networking process (Bosworth and Rosenfeld 1992) and is 'the key ingredient for building successful relationships' (Armstrong and Siew 2001). A network is a value-enhancing cooperative enterprise, enabling practising managers to learn how to trust and be trusted (Calton 1995). Trust may be defined as a personality characteristic, a belief system, a motivation or a set of intentions, as a mechanism for persuasion and to encourage future exchange (Hewett and Bearden 2001) or as a process (Dyer 2000; Jennings, Artz et al. 2000). It may be built at the personal or organisational level (Armstrong and Siew 2001; Davis and Schoorman 2000; Hewett and Bearden 2001; Kennedy and Ferrell 2001), and may be vested in people, organisations or products (Jevons and Gabbott 2000). Trust implies expectations, a future orientation, and is characterised by subordination of 'selfish interest to the joint interest' so that when conflict or dissatisfaction develops parties will endeavour to put matters right (voice) rather than simply walking away (exit) (Helper 1990; Hirschman 1970; Nooteboom 1999). It may thus be complementary to or substitute for more formal arrangements (Arino, de la Torre et al. 2001) such as contracts:

> Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another. (Rousseau, Sitkin et al. 1998:395)

Put more simply "Trust can be more generally defined as a device for coping with the freedom of others" (Gambetta 1988:219).

Trust is strongly associated with commitment in interfirm relationships (Cullen, Johnson et al. 2000; Das and Teng 2001; Kothandaraman and Wilson 2000), and is closely allied with perceptions of mutual benefit (Matear and Gray 2000) and with mutual adjustment (Cullen, Johnson et al. 2000). Trust may prevent opportunism and reduce risk (Calton 1995; Das and Teng 2001) especially of opportunistic behaviour (Williamson 1981). Firms may keep transactions internalised to ensure trust and prevent this although trust is induced in markets through repeated dealing and reputation effects (Ricketts 2001). Opportunism, in the negative sense of acting without principle as opposed to the positive sense of seizing opportunities when they occur, is seen as the antithesis of trust (Grandori 1999) but trust does not appear spontaneously: co-operating business partners have to learn how to trust and be trusted (Calton 1995; Powell 1996). Indeed Powell argues that networks can be used to introduce collaboration into well-established contexts such as vertical disagreggation where trust and cooperation have long been absent.

2.4.3.2 Partners

Taking an intentional view, firms may build relationships by selecting partners. Geringer (1991) sets out criteria for co-operative partner selection, task-related and partner-related, asserting that their use will depend on the perception of their importance for a venture's performance. The search and selection process is complex, involving an interplay of the partner's potential, based on their capability or knowledge contributions, and previous social connections [Soh, 2003 #543;Karamanos, 2003 #544;Greve, 2003 #545;Anderson, 1990 #323;Larson, 1991 #182]. Walker (1998) treats the search for a partner and the concept of social capital at a (social) system level, seeing social capital in two ways. Firstly Burt's view that cooperation as a capability is independent of a firm's position in the network (1992), and secondly, Bourdieu (1984) and Coleman's (1988) position that cooperation is induced by the structure of the network around the firm. Thus the denser the network the greater the normative constraint on the firm and the more tightly the firm is enmeshed. Both refer to this system-level effect as "social capital". Social capital refers to:

> connections among individuals - social networks and the norms of reciprocity and trustworthiness that arise with them (Putnam 2000:19).

Long-term exchange may not be sufficient for relationship-building. A mutual orientation is also required. Indefinite, repeated transactions among groups of organisations (Powell 1990), which involve informal ties of reciprocity in which exchange occurs through social ties, requires a considerable degree of cultural complementarity (Trice and Beyer 1993). This cultural compatibility is emphasised in the concept of relational quality (Hewett and Bearden 2001; Naude and Buttle 2000) and has been referred to as a 'mutual orientation' (Easton 1992). Whilst successive interactions over time will not necessarily lead to a relationship "any more than repeat purchasing constitutes loyalty" (Barnes 1995:1394), a long-term orientation in relationships significantly influences contracting and relational behaviour [Lusch, 1996 #192]. The mere existence of a long relationship does not have any significant effect on these nor on long-term orientation but 'a relational state' (Gabbott 1998:188), 'enduring value exchange' (ibid:199) and 'bonding' need to be added to the relationship equation. This includes:

> the degree of compatibility of corporate cultures and decision-making styles, a convergence of worldviews, and other organizational characteristics. (Arino, de la Torre et al. 2001:xx).

Contrary to Geringer's view (1991), firms may not make systematic analyses in selecting relationship partners (Easton and Araujo 1994; Niederkofler 1991). This again highlights the intentional, in which firms make a search and the emergent, in which partner acquisition is unsystematic.

2.4.3.3 Motivations

There are a number of approaches to explain firm motivations to co-operate. Motivations for entering relationships are based on benefits to firms in general from networks and relationships (Burt 1992; Grandori 1999; Håkansson and Snehota 1989; Perrow 1986; Thorelli 1986). Internal strategic motivating processes involved in co-operative network relationships can be identified (Child and Faulkner 1998; Easton 1992; Ford 1990; Håkansson and Johanson 1990; Håkansson and Snehota 1989; 1995; Johanson and Mattsson 1985; Juettner 1995). Motivation in the strategic management literature is largely depicted as a rational process emphasising a contingent view of cooperative - as opposed to competitive - strategy, which is:

> Rather than positing that situational contingencies determine which cooperative strategies will be successful, strategic management theory (SMT) allows for the exercise of strategic choice by the actors who are deciding on firms' policies. (Child and Faulkner 1998:34).

Strategic choice sees relationships as intended and chosen, though one may make a distinction between purposive action and what is a ‘by-product of other activities’ (Araujo et al 1998:82) or between a purposive system (where the objective is given to the network from outside) and a purposeful system (in which the objective emerges from within) (Biggiero 2001). Thus there may be unforeseen, unintended, serendipitous outcomes of firm and individual interaction. The provenance or development pathway of a strategy or relationship will have a bearing on how it is subsequently viewed unless there is a conscious decision to do otherwise (Araujo and Harrison 2002; Hite and Hesterly 2001). Holm, Eriksson et al (1999) have identified a clear causal pathway through the stages of business network connection to mutual commitment and mutual dependence to value creation. These stages increase the involvement and commitment of the parties.

Cooperation may be motivated by efficiency, through risk and cost reduction, advantages of scale, scope and speed, access to or using resources more efficiently and effectively, and economising on transaction costs even to the extent of vertical quasi-integration advantages of linking complementary skills in value chain (Contractor and Lorange 1988; Larson 1992; Lipparini and Sobrero 1994; Yarnell and Peterson 1993). It may be motivated by effectiveness through the specialised pursuit of distinctive competence (Yarnell and Peterson 1993). The need for flexibility can also be key to involvement in long-term relationships, in terms of innovation and technology exchange (Contractor and Lorange 1988; Powell 1998). Cooperation in relationships and networks can facilitate access to markets through joint marketing, market expansion and improving long-term market positions, or by co-opting or blocking competition (Contractor and Lorange 1988).

Collaboration may be driven by different strategic intents simultaneously, leading to numerous relationship portfolios (Johnson and Selnes 2004). The context for cooperation can influence the kinds of relationships firms may have. New technology intensive firms require collaboration with others to gain access to the emerging industry and to speed up the innovation process (Powell 1998). Firms employ different networks according to the strategies being pursued. Those which are ‘patented and focused production innovation-based firms’ have extensive networks around customers, market information, distribution channels, word-of-mouth advertising and new product development ideas (Ostgaard and Birley 1994) and these relationships can feature both vertical and horizontal linkages. Strong vertical relationships were found to feature in the interactions of firms which were 'aggressive innovation and marketing-based' and focused on maintaining contacts, especially with investors and suppliers, whereas 'product offering-based firms' focused mostly on customer relations (Larson 1991; 1992).

> The use of a network exchange structure represents a critical leveraging opportunity whereby resources can be gained and competitive advantages realised without incurring the capital investments of vertical integration, (Larson 1992:78).

Particular outcomes of vertical networks can be incremental improvements, such as cost reductions (Lipparini and Sobrero 1994) and there can be a distinction between entrepreneur-supplier and professional manager-supplier relationships, in that the transfer of organisationally embedded knowledge was found to be unique to the former relationship, and could lead to the joint development of major innovations (ibid). Developing close links can be positive and negative, however. Coming too close to customers can bring about a captive situation (Danneels 2003), strategic lock-in (Ebers 1997) and perhaps overlook new customers not being served (Hamel 1994). This also applies to other relationships.

2.4.4 Performance and functions of relationships and networks

Motivation for interfirm cooperation in networks and relationships is linked to expected functions and outcomes. Relationships and networks fulfil specific business functions. They may increase revenue or reduce costs (Ebers 1997); provide critical mass, access to new markets and remedy skills gaps (Doz and Hamel 1998). Oliver (1990) cites six functional reasons to organise in IONs: necessity (legal requirements), asymmetry (exercise of power or control over another organisation), reciprocity (cooperation, collaboration and coordination), efficiency (internally oriented), stability (coping with predictability in uncertainty) and legitimacy (norms and rules form the external institutional environment). Powell (1990) identifies know-how based activities, demand for speed and trust among network actors who follow four 'different pathways to co-operation' based on the functions of the networks: R&D networks, business groups, strategic alliances and collaborative manufacturing (Powell 1996). Networks (whether we view firms as managing in them or managing them) can be used in strategy for managing such diverse internal or market-based issues as: positioning of the firm and its product; managing split versus unified sourcing; managing marketing channels and franchising; managing transactions between company divisions; patent and trademark licensing; turnkey contract and 'systems selling'; interlocking directorates; barter and reciprocal trading; joint ventures, mergers and acquisitions; internationalisation; vertical integration; make-lease-or-buy decisions and diversification (Thorelli 1986).

In terms of relationship value, the more a relationship fulfils value functions for the firm the more it will value that relationship since value creation in business markets is about benefits and sacrifices (Walter et al 2001). Business relationships imply the co-ordination of exchange and production activities which augment firm interdependence thus increasing their joint productivity and creating relationship value, that is, the joint economic performance of the partner firms. Co-ordination is influenced by the network context of the interacting firms (Holm, Eriksson et al. 1999). Setting their work within the IMP context Holm, Eriksson et al (1999) balance the process view of business network relationships that focuses on the embeddedness of interactions, with the structural view, which sees firm interaction as shaping and being shaped by the network context. They conclude that:

> in developing value-creating workflow systems, the building and sustaining of mutual commitment are critical (ibid:481).

An effective relationship implies that the parties expect to gain long-term benefits from it and to achieve their own individual goals (Hewett and Bearden 2001; Morgan and Hunt 1994). However, Hewett and Beardon (2001) point out that the literature has focused on behavioural outcomes (maintaining relationships and commitment to them, for examples) but that the performance implications of those behaviours has not been widely considered. The exception they highlight is Lusch and Brown (1990) who found that efficiency and productivity in channel relationships were not significantly related to relational behaviour. In terms of the IMP view of firm performance in a network:

> The performance and effectiveness of organisations operating in a network, by whatever criteria these are assessed, become dependent not only on how well the organisation itself performs in interaction with its direct counterparts, but also on how these counterparts in turn manage their relationships with third parties. An organisation's performance is therefore largely dependent on whom it interacts with. (Håkansson and Snehota 1989:189)

A functionalist approach sees the contribution an element makes to a larger systems of which it is a part (Walter, Ritter et al. 2001). Functions of relationships may be seen as the activities performed and resources employed in business relationships, and they may be further defined as either direct – a primary or focal relationship which has immediate effects – or indirect, one which is of secondary importance with more oblique effects (Walter, Ritter et al 2001). Walter et al categorise some key business relationships according to the primary function they fulfil. Thus:

- Direct, dyadic relationships:
    - Profit function – profitable customers;
    - Volume function – capacity utilisation and economies of scale;
    - Safeguard function – providing emergency back up customers.

- Indirect relationships, in which connected exchange in one area is contingent on exchange in another and in which value comes from the connection of the focal relationship:
    - Innovation function – leading to new products or processes;
    - Market function – leading to new referrals;
    - Scout function – an information source;
    - Access function – conduit to institutions such as banks (2001:367-368).

Walter, Ritter et al (2001) recognise the economic bias of the functions they explore and suggest the possible inclusion of a social function. These categorisations are used in this research since they bring together motivation and function and can be used to assess outcome ie whether the relationship fulfilled its expected or intended function.

Organisational networks are important for interfirm knowledge creation and sharing processes through the major role trust and trust-building processes have in facilitating information-sharing and complex problem-solving within them (Calton 1995). Shared values are important in dyadic relationships and are crucial at an industry or network level for sharing learning and problem solving as well as planning and co-ordinating activities. The traditional view of knowledge transfer in co-operative relationships was that the transfer of knowledge between, say, international joint venture (IJV) partners lessened dependence and increased instability (Griffith 2001). However, IJVs with higher levels of knowledge transfer were found to have higher levels of commitment and satisfaction (ibid). Knowledge creation and transfer are particularly facilitated in interorganisational networks within industrial districts in which relationships are recursive, built on the social nature of knowledge creation through personal relations and are self-organising, in which emerging values promote co-operation and trust. Industrial districts may be especially suited to this since they may be seen as a form of weakly hierarchical organisations involving large and small firms (Biggiero 2001). Among others, Child and Faulkner identify start-up networks, the rise of which they attribute to a response to globalisation. In summary they consider the network form of governance to be useful when:

- Partners provide specific assets;
- Demand is uncertain;
- Frequent exchanges are expected;
- Complex tasks are undertaken under pressure (Child and Faulkner 1998:140).

Combining social and strategic approaches to alliance formation, Eisenhardt and Schoonhoven (1996) found alliances important when firms were vulnerable because they were competing in new or highly competitive industries or because they were technically innovative. This leads to analysis of change and the lifecycle in networks.

2.4.5 Change in relationships and networks

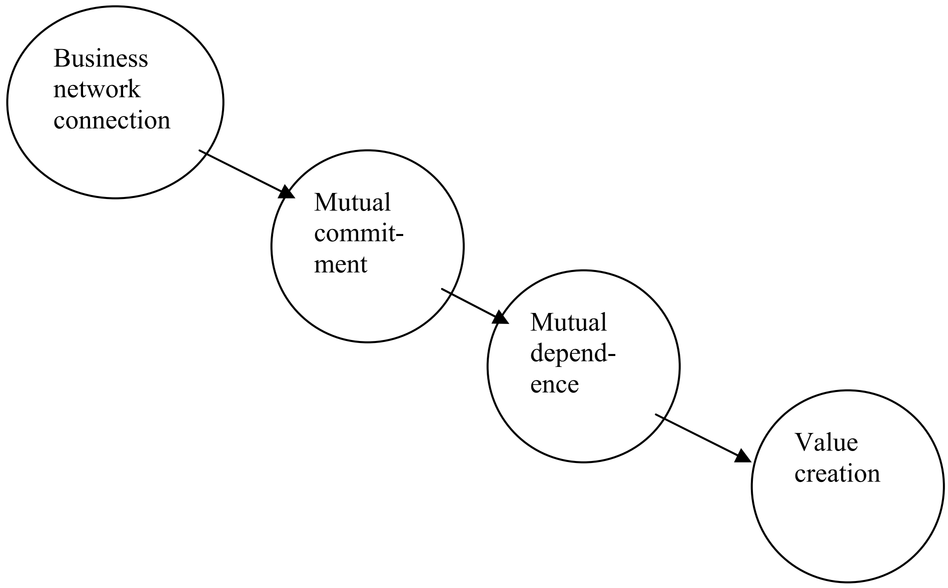
Relationships and networks in strategy challenges existing frameworks as these are not static concepts: relationships are dynamic: they change and end (Alajoutsijarvi, Moller et al. 2000). Firms can become disappointed with alliances, for example, because they have a poor understanding of their (the relationships') strategic dynamics (Khanna, Gulati et al. 1998). Instability in networks may be caused by conflict, poor performance, rivalry, declining industry conditions or "weeding out ill-designed solutions" (Ebers and Grandori 1997:275). Networks may be temporary or a stepping-stone (Harrigan 1986). Change or evolution may be brought about by changes in actors' resources or information bases or in their expectations (Ebers and Grandori 1997). In the context of social networks Burt (2000) identifies three features of what he calls relationship 'decay': strong relationships decay more slowly; decay over time may be a result of selection and learning or simply the age of the parties; older embedded relationships are more stable. Easton, Burrell et al stress the importance of change of behavioural pattern and its timing in industry transformation from the *status quo* to the next stage, believing that "the process of change is a social process rather than an economic one and as such requires some consensus" (1993:299). Benson-Rea and Wilson (2003) argue that while much of the existing literature focuses on the evolution of networks over time, there is a need to look at networks in the context of partner exchange, which they refer to as network revolution. Although Larson and Starr identify social networks as the first stage in the process of developing more critical strategic ties, they believe that social, business and strategic networks are "combined at the outset and throughout the organisational formation process," (Larson and Starr 1993:12). This encapsulates a view of changes in networks as evolutionary in both network processes change (Easton 1992) and structure (Holmen, Pederson et al. 1999). These two concepts are now considered.

Networks build up as activity links, actor bonds and exchange ties develop within relationships (Håkansson and Snehota 1995). The nature of these three factors may change over time, deepening or becoming less important. As relationships mature and develop, they are combined and linked to others through direct and indirect connections. Johanson and Mattsson (1988) see networks as "stable *and* changing" (ibid:290). They describe relationships as constantly changing through the partners' efforts to "maintain, develop, change and sometimes disrupt the relationship." These processes, they argue, take time and have a cumulative effect on both the relationship itself and the partners. In a similar vein, Powell et al (1998) describe a network as having a lifecycle, whereby collaboration speeds up innovation (the 'ladder effect') which, together with the experience of collaboration, changes the nature of the interactions themselves.

Network structure involves the micro-positions occupied by actors within a net or network, or the dyads which make it up. Over time these connections may become more numerous, as new actors become involved, or sparser, as actors leave. Incremental level of involvement and commitment build relationships through connection, mutual commitment, mutual dependence to value-creation (Holm, Eriksson et al 1999), as shown in Diagram 2.4. Araujo and Easton see structures as the 'temporary and transient effects of these primary network processes' (Araujo and Easton 1996:67). Walker (1998) argues from a micro, dyadic perspective for the merits of a constructionist approach (after Emirbayer and Goodwin 1994) in which firm strategy and network structure interact over time. He asserts that network formation does not follow a predictable path but changes by structural increments, arising from an evolutionary perspective. Lundgren (1993) attempts to bring the two concepts of process change and structural change together. Whilst he takes an IMP industrial network approach, and thus views networks as evolutionary, he also sees them as:

> composed of two complementary, but contradictory processes; the generation of variety and the organizing of everyday life (ibid:149).

Diagram 2.4: Relations between value creation, mutual dependence, mutual commitment and business network connection



Source: Holm, Eriksson et al 1999

Lundgren accounts for the dichotomy of fluidity and stability in networks by arguing that the emergence of new industrial networks is a process in which individual actors create the network, and are thus required to build their own position within the network, and yet simultaneously they are involved in the evolution of the new network as a whole (1993:169). This is in keeping with the social constructionist or structuration approach (Giddens 1979) actors are changing and are changed by the context for interaction. Håkansson and Snehota (1995) attribute the stimuli for network building to three sets of factors (two endogenous and one exogenous to the firm). These are: those internal to the individual firm, those arising from a situation within an interaction, or third party or environmental developments. They too argue that a network of business relationships is never stable and, bringing together the concepts of structure and process, claim that the network "is a structure with inherent dynamic features, characterized by a continuous organizing process" (1995:271).

Håkansson and Snehota believe that business networks exhibit clear patterns in their change processes and that such change is both evolutionary and continuous. The activity links, resource ties and actor bonds which a firm develops in one relationship are connected to others through the firm itself and through other actors: they are the causes as well as the results of change (1995:276). This is in keeping with the new economic sociology approach which sees change in the context of restructuring networks thus:

> Change, even fundamental change, of the social world is not the passage from one order to another, but rearrangements in the patterns of how multiple orders are interwoven (Grabher and Stark 1997:536).

In concluding this review of approaches to relationships and networks, it is important to note that firms may pursue different relationship strategies simultaneously as well as displaying dominant styles: these can also change over time. A number of predominant styles are identified in the literature: those which can be seen as largely transactional, largely relational or a hybrid of the two (Coviello, Brodie et al. 2002) or which can be viewed as involving permutations of competitive, cooperative or command approaches and levels of independence, interdependence and dependence (Campbell 1985). Finally, firms may decide not to cooperate with others and to avoid interaction where possible: factors affecting these approaches are now discussed.

2.4.6 Why firms may not cooperate and problems with cooperation

An industry may include non-cooperating firms. Not all firms use the relationship-based approach (Zolkiewski 2004) and involvement and commitment will depend on values and goals and also the experience of particular strategic approaches. Blois warns that:

> The risk of viewing relationships as if they must involve commitment and an almost blanket trust is to ignore the rich diversity of relationships which not only exist but are appropriate in different contexts (1999:10).

Non-network formation may also be based on motivation and expectations. In terms of the variety of relationships and interactions that a firm may have, there are a number of ways of explaining why cooperation may not be forthcoming even when it would benefit most of those involved (Binmore and Dasgupta 1986; Gambetta 1988). Spontaneous evolution of a cooperative equilibrium among humans is only just as likely as that of a non-cooperative one, unless some restriction is imposed on agents' beliefs (Gambetta 1988). This may well apply to business relationships. Gambetta sees the central problem as one of communication - even if people have perfectly adequate motives for cooperation they still need to know about each other's motives and to trust each other, or at least the effectiveness of their motives. However, the Prisoner's Dilemma in game theory shows that cooperation can evolve without trust and with restraint on action:

> The cooperative exchanges of mutual restraint actually changed the nature of the interaction. They tended to make the two sides care about each other's welfare (Axelrod 1984:85).

Close interfirm relationships may be formed with restraint and without trust. Mudambi and Helper note the existence of 'close but adversarial' relations where formal commitment is not accompanied by trust in buyer-seller relationships, leading to switching and opportunism (1998). Opportunism, in the sense of acting without principle, is seen as the antithesis of trust and forms one of the behavioural assumptions underlying TCE theory together with bounded rationality, which assumes that humans are 'intendedly rational, but only limitedly so' (Williamson and Winter 1991:92). Opportunism is 'a deep condition of self-interest seeking that contemplates guile' (ibid). What distinguishes opportunism and self-interest is that the latter will be controlled by the expectation of adherence to rules or promise keeping, whereas the former will not (Ghoshal and Moran 1996).

Central to an understanding of whether and how firms work with others, co-operate or merely compete in the market is the question of internalisation, being the antithesis of co-operative interfirm relationships. Dunning (1976; 1995) gives an overview of why firms may choose to internalise activities, thus overcoming the disadvantages or exploiting the advantages they may experience because of imperfect resource allocation in markets. Some possible reasons for internalisation are set out in Diagram 2.5. Dunning refers to 'hierarchical capitalism' (1995:464), in which firms prefer to internalise activities, resources and capabilities within the organisational hierarchy, and to emerging 'alliance capitalism' in which firms act more relationally, collectively and associatively (1995:466). In the former approach, firms seek to avoid or use market imperfections and to take advantage of unitary governance of activities within the firm by internalising intermediate product markets. In the latter approach, firms organise production and transactions using both co-operation and competition with other firms. Firms choose between the two depending on their respective costs and benefits.

Diagram 2.5: Possible causes of internalisation

Seller viewpoint	No price discrimination in market High costs of enforcing property rights High costs of controlling information Output more value to seller than buyer will pay Need to preserve quality reputation Under-utilised resources
Buyer viewpoint	Availability of product Price of product Delivery time of product Quality of product Under-utilised resources

Source: Adapted from Dunning (1976)

Dunning admits that economic theories of industrial organisation and of the firm such as TCE have paid little attention to the role of 'co-operative agreements' (1995:674) and argues that 'the socio-institutional structure of market-based capitalism is undergoing change' (1995:481). It may be that it is the analysis which is changing and that the socio-institutional structures have been there all the time.

An intermediate alternative to transacting on the market is relational contracting. Both TCE and agency theory have contracts as organising constructs and argue that contractual hazards (such as opportunism) can be countered by safeguards or trust (Reve 1990). A combination of contracts and trust can be found in implicit contracting and relational contracting (Deeds and Hill 1998; Reve 1990). Relational exchange theory holds that contracts reduce uncertainty and risk in exchange relationships and assumes that the parties have interacted in the past, that this is remembered, and that they may interact in the future (Arino, de la Torre et al. 2001; Macneil 1980). Discrete transactions are limited, narrow and largely anonymous whereas in relational exchange:

> participants can be expected to derive complex, personal, noneconomic satisfactions and engage in social exchange (Lusch and Brown 1996:20) drawing on (Dwyer, Schurr et al. 1987).

Lusch and Brown (1996) argue that discrete transactions and relational exchange may be viewed as ends of a continuum, with exchange relations at any stage in between. However contracts and promises should be considered as weaker forms of pre-commitment, which do not rule out certain actions but simply make them more costly (Gambetta 1988). Contracts shift the focus of trust on to the efficacy of sanctions and either one's own or a third party's ability to enforce them if a contract is broken. This is shown very strongly by Glover and Kusterer (1990) in their case studies on contract farming, in which the advantages to each party are weighed against the room for conflicts of interest, exploitation and power imbalances. Relational contracting thus seeks controls on partner behaviour which are not social.

Agency theory is another economic theory of control which has been used to describe the firm as 'a nexus of contracts between resource holders' (Hill and Jones 1992; Reve 1990). Agency relationships are defined as those in which a party – the principal – contracts with another – the agent – to perform some activity for the principal and delegates decision-making authority to the agent (Band 1992; Jensen and Meckling 1976; Pontes 1995). This theory of contractual relationships is based on assumptions of the principal's utility maximisation and voluntarism (Pontes 1995) and also on personal welfare maximisation and rationality (Band 1992). Agency relationships exist within the firm and with outside providers (Pontes 1995) and problems arise when the agent does not act in the best interests of the principal (Jensen and Meckling 1976), for example between managers and shareholders or companies and distributors. Conflict arises, then, from a separation of ownership and control (Band 1992) and again control is non-social, having recourse to contractual clauses in the case of disagreement. Since this theory applies to internal and external relationships, these difficulties may also arise in network relationships. There are thus theoretical explanations of factors preventing or negating the need for cooperation in long-term market-based relationships. These may include lack of communication, rules or social controls, too much uncertainty, or that the perceived costs of cooperating may be too high or risky. The foregoing does not fully explain motivation and reinforces the view that to fully understand firm interactions there is a need to recognise a socio-economic perspective (Granovetter and Swedberg 1992; Smelser and Swedberg 1994; Swedberg 1990; 1993; Uzzi 1996).

Section 2.4 has shown that issues of definitional language in business networks are important because theory in this field is disparate and broad. From the literature, networks as a noun, are a structural approach to the firm's external interactions and networking is the interpersonal process of building them. Networks can be internal or external to the firm and they build up over time, and thus timescales of relationships were used in the study. Trust is a key theme in building relationships and this too was used and identified. The concept of intentional networks, nets, is relevant to this study and, in keeping with the debate in the network literature (and in parallel with the debate in the strategy literature), the notion of emergent organic networks was also used from the literature. A major application from the literature to this study is the RAA model of the IMP group, involving activity links, resource ties and actor bonds. This is a clearly established way of theorising and explaining the levels of relationship interaction among firms in their relationships and networks. Relationships are part of the firm's wider networks and are thus operationalised in the RAA model at the firm level, at the dyadic relationship level, and at the wider network level. Since the approach taken in this qualitative interview based research was to use the informants' definitions of their network boundaries, and these were not known in advance, the market or industry as the network was used as a conceptual basis of the study (see section 2.2 above). The business network literature is moving from a view of evolving, naturally occurring networks to encompass ideas of intentionality and strategic intent in creating and using networks or relationships. The passivity of the traditional view of networks as merely there, as the context for business, is moving to incorporate strategic elements: managing networks not just managing in networks. This parallels the shift in the strategic management literature in a crucial way.

Major themes from the literature applied in this study were around the nature of the structural linkages between firms, which may be formal (and within a recognised legal format such as joint venture, consortium, franchise or long-term contracts) or informal, such a friendship or family based. Relationship can also be vertical within the value system or horizontal, with other firms at the same stage. These concepts were applied as ways of describing where and how relationships were structured within the firm's value systems and as a common basis for comparison among them. In analysing firm relationships in the study, motivations and functions of the relationships were seen as closely associated. The function of the relationship in strategy: direct (profit, volume or safeguard) and indirect (innovation, market, scout and access) were related to how the relationship fitted in to the firm's value-creating system and the nature of the depth of interaction: value-creating, dependent, committed or connected (being stages identified which could be a development pathway but which showed depth of involvement. Finally, since firms may choose not to cooperate and act independently, the study was underpinned by an awareness of the TCE approach to interfirm exchange, whereby it might choose to operate as an internal hierarchy, and by the notion that human values may involve choice not to cooperate or interact with others or only to do so on a limited contractual basis.

In understanding the use or not of relationships and networks, the following concepts and definitions of these latter were used. The study preferred to use a strategic term referring to building or forming network relationships rather than the general interpersonal term of 'networking'. The study focused on the dyadic relationships, on-going, long-term interactions, identified by a focal firm. These relationship may or may not be seen by the focal firm as part of a larger network but interviewees identified their relationships rather than their networks. Networks in this study were external to the firm not internal, and only where interrelated relationships involved a number of firms was it seen as a network. The term 'net' was used for an intentional strategic grouping. The use of the term 'relationship' here was for on-going co-creation of value, not merely some kind of exchange. Where the focal firm was in a simple exchange relationship, this was seen as a ‘connection’, with no long-term, value-creating connotation. Groups of relationships, nets or networks, may be connected to other networks but a connection had low intensity involvement for the focal firm.

The strategy context for firms required a wide definition of ‘networks’. Connections could be formal or informal or a mixture of the two; they could change over time, but if they were significant to the firm and its strategy and they involved multiple, ongoing interactions with parties outside the firm, they came within the firm’s networks. ‘Interactions’ implied a shorter time frame and could be episodic but could develop (if recent) or become important to the firm, even if the pattern of interaction was not frequent. ‘Relationship’ suggested a close, ongoing commitment to another party and involves a small number of players. Networks were made up of relationships and interactions. A linkage was any sort of loose connection to the firm, and could be direct (in a dyad) or indirect (via a third party).

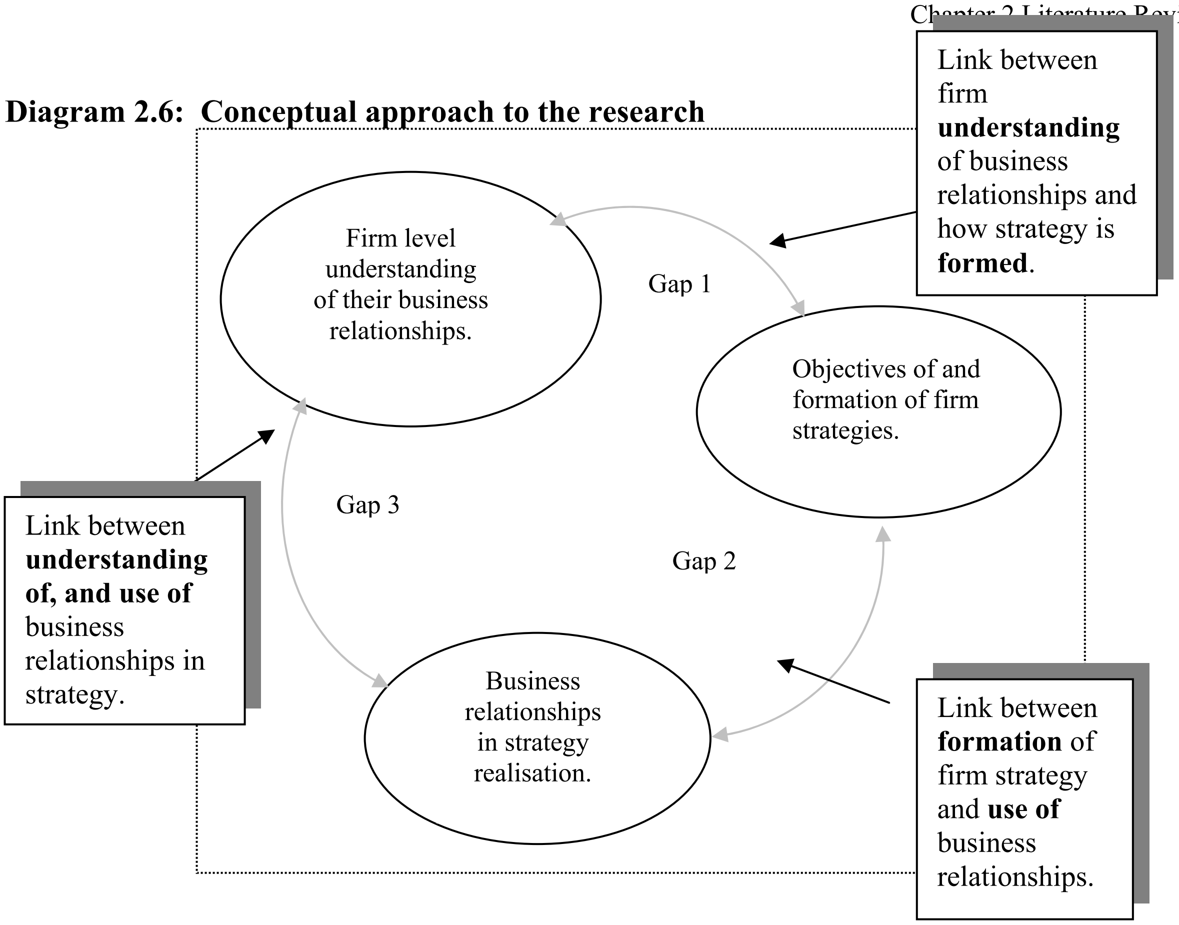
2.5 Combining strategy and relationships in this research

This section of the chapter brings together discussion of the literature on strategy formation and implementation, and relationships and networks by identifying some gaps in the literature which this research addressed in its research questions. The research questions and the gaps are closely inter-related, as shown in Diagram 2.6 which summarises them. The gaps in the literature on understanding the links between business relationships and strategy concern:

1. The link between firm understanding of business relationships and how firm strategy is formed.
2. The link between the formation of firm strategy and its use of business relationships.
3. The link between how a firm understands and uses its business relationships in strategy realisation.

These are now related to the earlier discussion of the literature.

Diagram 2.6: Conceptual approach to the research



Note: these conceptual relationships are shown as two-way since factors influence and are the results of others.

2.5.1 Converging areas

Bringing together the two key fields of theory on strategy formation and implementation and how and why networks of relationships develop and are used (set within the context of an industry) the discussion has shown that there are a number of areas of convergence in the literature. These focus on important issues in both fields and relate to: whether and when strategy and relationships and networks are intentional or emergent; how the firm understands its value-creation process, in isolation or in the context of relationships and networks; and how the firm uses and evaluates these interlinked processes. This research is at the intersection of strategy and network research (McEvily and Zaheer 1999). In the context of strategy as practice, there is a need for practices-in-use research which investigates the multiple levels of management action (Jarzabkowski 2004). This is done within an approach to strategy and network organisational forms which are embedded and within multiple levels within and among firms (Lewin and Volberda 1999).

2.5.2 Intentionality and emergence

How strategy is formed in the context of relationships and networks relates to whether the firm sees this as planned, whether it emerges, or is a combination of both. Intentionality and emergence are questions of interest in both strategic management and network theory. In strategy these are exemplified by Child's approach to deliberate, rationally-formed business relationships (Child and Faulkner 1998), and by Eisenhardt, who has described high-velocity strategy as simple rules and patching (gaps in resources or competences) (Eisenhardt and Brown 1999; Eisenhardt and Sull 2001). In networks Möller and Svahn (2003) argue that the Industrial Network approach of the IMP group focuses on the long-term evolution of networks and has paid less attention to intentional networks and more to networks as a given than as a context that can be deliberately designed and enacted. Finally, the emergent view of networks might be typified by Håkansson and Snehota (1995) who see networks evolving gradually and dynamically over time (Anderson and Narus, 1990)..

Bringing together the debates on determinism and voluntarism, intentionality and emergence in strategy (Dyer and Singh 1998; Gulati, Nohria et al. 2000; Jarillo 1993), these are analogous to the 'managing relationships' (Ford, Gadde et al. 2003) or 'managing in relationships' (Ritter, Wilkinson et al. 2004) debate in network theory. Whittington (1988) puts forward the realist perspective (Bhaskar 1978) as one which captures both the powerful, deterministic influence of the environment on the firm's strategic choices and the assumptions about agency in the voluntarist approach. This approach is useful as a way of showing an interaction rather than a dichotomy at work between the two, in which environmental structure is a background or precondition to actors' internal and external strategic choice set. The co-evolutionary approach (Lewin and Volberda 1999) argues that strategy and organisational forms are embedded and take multiple forms and levels within and among firms. This duality is expressed by Gulati and Gargulio (1999) in the interplay between intentional, calculative choice in relationships and their emergence and evolution:

> Our model portrays the social structure of interorganisational relations as a "macro" phenomenon emerging out of the "micro" decisions of organisations seeking to gain access to resources and to minimise the uncertainty associated with choosing partners (ibid:1475).

In this view relationship strategies emerge out of intentionality. Theoretical views on the strategic context for firms may be shifting from rational-planned, through planned-emergent-dynamic, to planned-emergent-dynamic-interactive (Tikkanen and Halinen, 2003). Daneels (2003) argues for a mix of approaches: because of the restrictions that increased commitment brings, firms should try to balance what he found to be the natural process of tight coupling with deliberate loose couplings. In this view intentionality is emergent and deliberately enabled.

So it would seem that intentionality and emergence are coming together as a joint explanation in both areas of theory, where there has been insufficient balance between the view of 'intended' and 'emergent' strategy (Mintzberg and Waters 1985). Networks and relationships may be intentional or emergent, whereby the former will be managed consciously whereas the latter may just be the given context (Araujo, Bowey et al. 1998). Hallén emphasises the difficulty of planning networks, concluding that:

> There is no clear dividing line between planned and spontaneous emerging networks, as some combination of intention and chance is probably present in all situations. (Hallén 1992:88).

Uzzi (1996) points to the dangers of an under- or over-socialised approach to strategies and interactions, concluding that motivations in networks (including why actors enter and maintain embedded links) are an 'emergent property of the social structure'. Furthermore, rationality is neither 'purely rational nor boundedly rational but expert' ie contingent on the context. The positive effects of embedded relationship peak and can then develop into a liability as they become isolated from external perspectives (rather akin to Miles and Snow's (1992) reservations about internal or hierarchical networks). Blois observes that long-term relationships sometimes: “appear to be the *aim* of establishing a relationship while in other cases they are portrayed as the *result* of a relationship” (Blois 1999:5). There is a need to identify and clarify whether strategy and relationships are aims or intent, or whether they are a result or consequence (Achrol and Kotler 1999; Day and Montgomery 1999; Srivastava, Shervani et al. 1999). The question is whether firms are aware of how they use their business relationships in strategy or not and how they go about this. This discussion gives support for Research Question 1 on how firms understand their business relationships. These issues then relate to a gap in the literature concerned with the link between firm understanding of business relationships and how firm strategy is formed.

2.5.3 Value creation

Section 2.3 highlighted the development of a relational view of strategy. Section 2.4 showed how business network theory is taking on strategic elements. Where the two are coming together powerfully is in their views of value-creating systems. This is based on both a structural and a processual analysis and involves an understanding of how firms create value *in* networks and how they assess the value *of* networks in strategy, two interlinked concepts which are now discussed. In both strategic management and networks, theory is considering what the value creation process involves for firms. Accepting the concepts of embeddedness and the convergence of the economic and the social, plus a mix of intentionality and emergence, Ford et al (2003) stress three myths around managing in networks which resonate with the debate in strategy on the atomistic and the relational views:

- The myth of action: in a network view of reality business is a process of interacting rather than action and reaction;
- The myth of independence: a firm's analysis and strategy are interdependent with others;
- The myth of completeness: interacting in business relationships provides access to resources rather than company self-sufficiency.

Value is no longer created by independent, self-sufficient, firm action but relationships among economic actors are changing such that:

> relations are less sequential, and more synchronous…customers are regarded as participants in the co-production of value, and are encouraged to adopt this role rather than remaining passive consumers and/or users. Thus the borderline between supplier and customer often becomes blurred (Wikström and Normann 1994: 22-23).

2.5.3.1 Value creation processes in relationships and networks

In terms of the structure of value-creating activities, relationships and networks play a crucial role as an organising framework. Networks are 'value-enhancing cooperative enterprises' (Calton 1995:8) and attention to network relationships brings advantages in that managers view 'the whole value system' (Doyle 1995:31). Value creation is shifting its focus within strategy away from the manner in which the organisation allocates and structures its internal resources towards the way it relates its own activities and resources to those of the other parties constituting its context (Håkansson and Snehota 1989). Business organisations are involved in dynamic exchange relationships and each exerts considerable influence on the other organisations (Håkansson and Snehota 1989). For many firms the immediate environment is concentrated and structured and is constituted by a set of other active organisations. Whilst the firm is traditionally seen as an economic structure aimed at managing activities and transactions, Parolini (1999) offers a view of sets of activities rather than economic actors within value creating systems (VCSs). Parolini's approach aims to offer a method of analysis to model relationships:

> in a reality characterised by companies with profoundly different configurations that nevertheless operate in the same competitive environment (ibid:xxii).

A major contribution of Parolini's approach is her avoidance of value-laden terminology: firms are in networks of connections (though the connectivity may be through ICT systems) and are involved in organically interconnecting networks, made up of flows and relationships. Ultimately, within value creating systems which produce more systemic products through co-production and co-participation, the business decision becomes "make, buy or connect choices" (ibid:56). The value system is the group of actors who perform the value activities required to produce a product or service (Möller and Svahn, 2003; Parolini, 1999). Möller and Svahn (2003) see the VCS as made up of strategic value nets 'intentional nets of a restricted groups of actors' (ibid:213). In Möller and Svahn's models, these can be stable, with core value production; established, with value-adding relational value production; and emerging, with future oriented value production (2003).

The role of relationships and networks is to add to value creation at multiple levels for firms and customers (Normann and Ramirez 1993). In his exposition of value co-production Ramirez (1999) builds on Normann and Ramirez (1993) and, in contrast with the traditional view of value creation in industrial production in which customers consume or destroy value, Ramirez sets out a view of value co-production which is achieved through collaborative technical breakthroughs and social innovations. In value co-production, value is "synchronic and iterative, not linear and transitive" (1999:50) and: "Value is not simply 'added,' but is mutually 'created' and 're-created' among actors with different values." (ibid). Taking a structural view, optimal decisions about the benefits and scope of relationships will be based on the pay-offs expected, which change as the relationship develops (Khanna et al 1998).

In terms of the structural value of networks, Powell et al (1998) believe that there is a danger in firms being over-connected, asserting that there are decreasing returns to network ties because they 'bind' the firm. Powell et al's views echo Uzzi (1997) who argues that embeddedness in close relationships could have positive effects only up to a point, after which they damaged firm performance by making them less flexible and less open to new information. Uzzi advocates an integrated network approach which is neither under-embedded (arm's length) or over-embedded (over-connected) and more difficult to get out of. In managing their portfolios of relationships, whether based on strong or weak ties, creation of value in close relationships may be achieved through balancing them with weaker relationship within the portfolio (Johnson and Selnes 2004). Age is important too: Håkansson and Snehota (1995:277) argue that the growth and development of a firm's networks slows down over time and the process of elaboration and tighter connection becomes less. Thus, newer networks may be more susceptible to change than older ones, that is before a 'network logic' sets in and incremental adaptations move the network interactions towards a steady state, echoing Lewin's (1951) force field equilibrium model. In terms of structure then, relationships and networks play a crucial role in organising value creation activities and there is a need to understand the potential or actual value-creating roles and other functions of relationships in strategy – what firms think are doing with their relationships. This relates to Research Question 2 on how firm understanding of relationships affects their use in strategy and to a gap in the literature on the link between the formation of firm strategy and its use of business relationships.

2.5.3.2 Assessing the value of relationships and networks

In terms of value assessment, the process of measuring what relationships contribute to strategy, different relationships create different value and different kinds of relationships have different outcomes over time (Anand and Khanna 2000; Johnson and Selnes 2004) though the accumulated value of a portfolio of relationships is more important than focusing on the value created in a single one. Trice and Beyer (1993) believe (after Powell 1990) that informal networks of firms usually involve ‘commodities whose value is not easily measured’ (ibid:331), arguing that qualitative matters such as know-how, capabilities, particular production techniques, innovation and quality management are hard to evaluate (Powell 1990:304). On the general notion of how the firm might measure or evaluate relationship outcomes Thorelli (1986) highlights the problem clearly:

> much is made of the importance of market share as a measure of a firm's position (and a correlate of profitability). However, the network paradigm suggests that the quality - the intensity and strength of customer and supplier relations - of a position may be just as important a dimension as its quantitative expression in terms of sales volume or market share. Network relations should be subject to systematic evaluation. It may be that the definition of served market needs reconsideration when it is approached from a network perspective (1986:47).

This has echoes of the debate around the strategy-conduct-performance approach in strategic management, in which there is no consensus even on what measures to use (Habib and Victor 1991). However, increasing research attention is focusing on the question of how firms evaluate their interfirm linkages and the relationships in which they invest (Ford and McDowell 1999; Ford, McDowell et al. 1995; Gassenheimer, Houston et al. 1998; Hamel 1989; Hibbard, Hogan et al. 2003; Holm, Eriksson et al. 1999; Kay 1993; Srivastava, Shervani et al. 1998; 1999; Sydow, van Well et al. 1998; Walter, Ritter et al. 2001).

Evaluation of relationships can be a combination of private and common benefits set within the relative scope of the relationship. In criteria for evaluating and distributing value, theorists are bringing together economic and social criteria which echo the convergence of these two ways of seeing business strategies and interactions (from Sections 2.2 and 2.3 above). Gassenheimer et al (1998) argue that because recent research focuses on economic equity as the evaluation criterion, this omits other factors which add to complexity, such as the importance each party places on the economic and social value of each relationship. Differences in entry motives are referred to as relative distance. Thus as social distance increases, relative to economic distance, concern for others decreases and self-serving economic interests increase, and as social distance decreases, relative to economic distance, concern for others increases and self-serving economic interests decrease (ibid). According to this analysis, economic interests see relationships at their present value with expectations of the future based purely on a rationally evaluated time-value of money discount factor, and social interest sees the added value of relationships, with their norms and anticipated consequences.

> Self-interest remains the primary motive for engaging in relationships, but parties also realize their interdependence and the benefit of communication and short-term compromise to obtain long-term economic rewards (ibid:326).

Thus Gassenheimer et al add the 'social context to the traditional economic purpose of evaluating exchange behaviour'. Relative relational distance is a combination of perceptions of fairness, the measure of the value of relationships and of the degree of compromise (social and economic) required to maintain a relationship. This resonates with the concept of relational quality (Arino, de la Torre et al. 2001) highlighting the shortcomings of a purely economic analysis and the importance of adding human interaction and values into the analysis of business relationships. There is a need to understand how people in firms do in fact assess their business relationships.

However, the economic and social value of relationships are not dichotomous, though there may be a tension between them. Gassenheimer et al (1998) position TCE against the interorganisational view of Social Exchange Theory (SET) which, they argue, looks beyond short-term, financially driven goals to the long-range welfare of relationship partners. SET argues for the behavioural evaluation of relationships, looking at social value in terms of satisfaction with partners and the comparison of alternatives to achieve relationship objectives. Thus value is defined in SET by satisfaction with the exchange and the key difference between TCE and SET lies in objectives and the means of evaluating and attaining them. Thus calculative assessment of financial returns and gains compared with options, versus satisfaction with cooperative relationships, compatible goals and comparison of 'relational value' anticipated from other options respectively. Shamdasani and Sheth found that commitment of partners was the strongest determinant of relationship satisfaction and continuance, importantly they suggest that:

> Satisfaction is influenced by outcomes received in the past (ie the level of competence displayed by the partner) while continuity is influenced by expectations of future co-operation (ie the degree of strategic compatibility between the partners). (Shamdasani and Sheth 1995:17)

Sweeney and Webb (2002) offer a taxonomy of 7 relationship benefits: 5 functional and 2 psychosocial: operational, symbiotic, economic, customisation, strategic, psychological and social. Relationship benefits (or value) may derive from any number of these and in combination (Sweeney and Webb 2002). Gummesson defines return on relationships as: "the long term net financial outcome caused by the establishment and maintenance of an organization's network of relationships" (1998:15). Firms may use various methods to assess the suitability, acceptability and feasibility of relationship strategies available to them (Johnson and Scholes 1999). Strategy evaluation methods involve a mix of quantitative and qualitative approaches. Suitability, whether a strategy meets the organisation's operational circumstances, involves assessing: lifecycle stage, positioning, financial performance, portfolio of activities and value chain analysis (improving value and exploiting core competences). Acceptability, the anticipated performance outcomes of a strategy, is assessed against expected return, based on such measures as profitability (eg ROCE, payback, DCF), cost-benefit analysis and shareholder value analysis (SVA), risk, assessed by financial ratio projections (eg capital structure, break-even, liquidity measures) sensitivity analysis (what if? spreadsheets, for example) and modelling, and stakeholder reaction. Finally, feasibility, whether the organisation can practically achieve the strategy, can be judged by analysing such factors as funds flow, break-even, and resources deployment (Johnson and Scholes 1999).

In terms of strategy evaluation within the context of co-operative relationships whilst different alliance types have to be valued differently:

> Once alliances are up and running, partners may also perceive unanticipated benefits from cooperation, such as mutual learning, which lead them to re-evaluate it positively (Child and Faulkner 1998:6).

In assessing the value of relationships, firms might assess mutual learning. In a five year in-depth study of 15 international strategic alliances Hamel et al (1989) identified how Japanese companies used competitive benchmarking in collaborative relationships. They identified a combination of measurement, learning and transformation of one's own performance, which involved:

- Systematic calibration of performance against external targets;
- Use of rough estimates of where partner is better, faster or cheaper;
- Using estimates to set new internal targets;
- Revising measures to assess competitor's rate of improvement.

In the strategy literature, general themes in evaluating co-operative business relationships include: fixed assets (somewhere between current and NPV), working capital, expertise, contact network, brand names and technology transfer (Child and Faulkner 1998). The valuation of partner contributions remains problematic, however, and relies:

> very much on the partners' attitudes to alliances, and the way in which they expect them to be managed and to evolve over time the more sophisticated the valuation process the greater the risk of the development of a subsequent 'them-and-us' attitude (ibid:159).

In exploring the evaluation of interfirm relationships, and in particular objective versus subjective performance evaluation, problems arise with attempts to measure perception (Geringer and Hebert 1991; Glaister and Buckley 1998). However, what can be said is that a range of measures are used. These may involve triangulating across 'objective' performance measures such as traditional financial ratios (such as ROI, growth, maximising shareholder wealth or qualitative returns to other stakeholders such as customers) and other indicators and 'subjective' measures such as levels of satisfaction. Further, cooperative relationships such as joint ventures or alliances may accomplish their goals despite poor objective and financial measures or may be seen as unsuccessful even though they achieve good financial results (Geringer and Hebert 1991). Generic concepts of value in business management such as accounting, economic, purchasing and marketing measures may be used in evaluating business relationships (Wilson and Jantrania 1994). Assessing value can range from esteem, the quality and interest of things, utility and exchange value through to the idea of a measurable unit and the concept of price (Ramirez 1999).

The chief implication of this discussion in the literature is the importance of understanding the value of interactions with others in the value creation process. To understand this process requires conceptual frameworks which allow analysis of ‘an infinitely interconnected set of dynamic relationship’ rather than static limited case or examples (Ramirez 1999:55) but “the multiplicity of values, held in relations with multiple actors...cannot be reduced to a single metric” (ibid:55). These concepts of value from relationships are distinct from ‘values’, which are deeply held or embedded determinants of behaviours and beliefs, and are wider than a single metric of value as above. This discussion has highlighted the problematic issue of the identification in the two streams of literature of how firms assess the contributions relationships make to strategy. In terms of the process of measuring what relationships contribute to strategy - what value firms think they are getting out of their relationships, a focus on these issues gives support to Research Question 3 on the link between understanding of and use of relationships in strategy realisation. How firms assess or evaluate the contributions of their relationships sheds light on a third gap in the literature, the link between how a firm understands and uses its business relationships in strategy realisation.

Section 2.5 has highlighted areas in relationships and networks and strategy where the literature and theoretical understanding are converging around balancing intentionality and emergence, a balance in social and economic perspectives in strategy and in understanding value creation structures, processes and outcomes. These centre on how much the firm understands and controls value creation processes and how the firm might assess their outcomes. This study shows how these two sets of factors played out in an industry.

2.6 Chapter summary and conclusions

Combining concepts from the foregoing discussion of the literature to operationalise how firms in an industry understand and use their networks of relationships, the following concepts were used, focusing on the firm's access to resources and capabilities through its networks and relationships and how it understands, value and uses these in strategy.

2.6.1 Concepts used from Section 2.2 on the industry context

This study focused on firms within the context of one industry. The New Zealand wine industry and its environment provided the macro level setting for the firms and the relationships they identified. This study was conducted among firms within a common geographical boundary, which were clustered in a number of regions and were thus known to each other socially to varying degrees, were all members of a compulsory industry grouping, were in two of the three size membership categories of that institution, and perceived themselves as competing strategically within the same industry. In this study, a number of elements of Section 2.2 above were used to define the industry in a general way as a group of firms (wine companies) from a specific geographical location (New Zealand) which competed in similar markets, with similar products and which perceived themselves to be members of that industry. The industry firms were also members of an industry body – New Zealand Winegrowers (membership of which is a legal requirement for public health and safety and quality control reasons). From TCE, the research was open to the possibility that firms did indeed believe that they could internally control their transactions, whilst primarily focusing on the firm's external networks and relationships. Combining organisational theory and specifically population ecology, the research was informed by the idea that the industry case firms might indeed have shown lifecycle and group characteristics, especially given the generic marketing approach of the industry "Riches of a clean green land" to its export market development. The research was also informed by the notion that in a small geographically proximate industry within a small country it was important to identify the collective group idea of the industry and then to separate it, if possible, from the firm level view of strategy within the industry. From population ecology and social systems approaches to industry, clear lifecycle patterns of structure and firm behaviour can be identified among the New Zealand wine firms. Finally, local geographical factors were seen as major factors in the development of the industry, both in terms of shared technology and location advantages and disadvantages (primarily distance and isolation from markets) but also in the location importance of the industry in terms of competitive positioning.

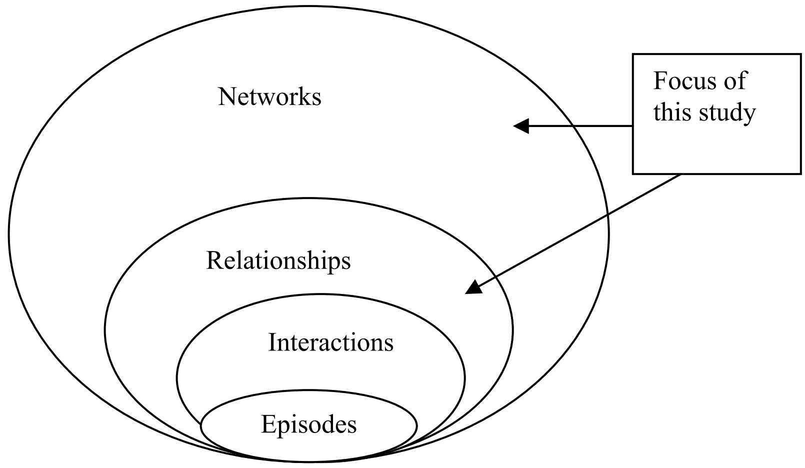
2.6.2 Concepts used from Section 2.3 on approaches to strategy

This study focused on firm level strategy and used concepts from the classical, resources and capabilities views to operationalise strategy in the research. Describing and analysing strategies was done based on their focus on actors (such as friends, family, socially based industry learning and R & D), resources (whether critical or ancillary inputs) and activities (eg supply, production, distribution, marketing). Combining the RBV and DCV (Barney 1991; Hardy, Phillips et al. 2003; Miller 2003) inputs into a strategy were either resources (core or ancillary) or capabilities/activities (core or ancillary). Firm strategy was analysed based on the implementation of their strategies in terms of positioning outcomes in product markets, which were primarily variations in the bases of differentiation in the industry context, though one large firm was also able to compete on the basis of its cost position domestically. The case firms were also analysed in terms of the nature of their ties with key actors (as in Section 2.4) within their value systems and an assessment made of how these relationships were used in firm strategy in general and related to the degree of intentionality and emergence in strategy and relationships.

2.6.3 Concepts used from Section 2.4 on relationships and networks

Key concepts driving the analysis of the use of relationships in strategy and firm understanding of this were: what functions the relationships had in strategy for which Walter et al's (2001) seven functions were used to indicate the nature of direct and indirect functional roles played by the relationship. These were assessed using Holm, Eriksson et al's (1999) categorisation in terms of the firm's level of involvement and value co-creation within the relationship, ranging from the lowest to the highest levels. These were: mere connection, through committed and dependent to value-creating relationships. This analysis was based on the view that value co-creation in networks of business relationships is the result of mutual dependence or interdependence which arises from mutual commitment through interactions which in turn derive from business network connections (Holm, Eriksson et al 1999). This analysis was combined with the R-A-A model for each firm: their resources links, activity ties and actor bonds. Thus combining Holm, Eriksson et al (1999) and Walter et al (2001) relationship functions were either direct, a primary one which had immediate effects, or indirect, one which was of secondary importance with more oblique effects. Relationships were connected, dependent, committed, or value-creating depending on how critical the resource or capability provided by the relationship was to the focal case firm (Holm, Eriksson et al. 1999). In terms of the levels of analysis of relationships which are nested within networks, Diagram 2.7 shows some of those identified in the literature. This study analysed relationships on the two higher and more involved levels.

Diagram 2.7: Nested levels of firm interaction



Source: Developed for this study

2.6.4 Concepts used from Section 2.5 on integrating themes of intentionality, emergence and value creation

Key integrating concepts from both the strategic management and networks literatures covering structural and process issues of value creation in and of relationships and networks were used in this study. Structurally, relationships and networks are organising frameworks for value-creating activities, adding an external focus to traditionally internal approaches to value-creation. Analysis of value creating systems, in which value is co-produced, is beginning to centre on activities rather than just on individual firms as actors, though this study analysed both. On the nature of ties, firms can have too few (leading to lack of information and opportunities) or too many connections (leading to too much interaction), can be under- or over-embedded, and need to have a balance of strong and weak ties. Finally, newer networks and relationships are more dynamic than older ones, which may or may not be a good thing.

In assessing the value of relationships and networks, the economic and the social are again juxtaposed this time as measures or assessments used of the contribution made by relationships. Economic evaluation is positioned as objective, rational, calculative assessment, relating to TCE. Social measures may be subjective, emotion based on broader human values, relating to SET. The problematic area of what measures to use covers financial and business methods, including learning and satisfaction, some of which can be related to resources and capabilities, some of which cannot. Value is seen in much of the literature as distinct from values as beliefs, but these can drive strategy, as shown in Section 2.3, and the data did have relevance for this method of assessment, as discussed in Chapter 5.

In conclusion, the rich mix of concepts used in the analysis brought to bear on each case study in the next chapter enabled an in-depth view of each firm's approach to relationships and networks in their strategy within the context of their industry and value system involvement. The research identified patterns and diversity in network strategy and brought together converging concepts from the two sets of literature. The overriding themes of dichotomy and convergence also arose in the data, as is seen in the next chapter. In concluding this overview of the literature on networks, Grabher and Stark (1997) argue that "decisions that appear biased when studied in isolation may have their own rationality in a larger strategic framework" (ibid:536) and applaud work which tries to bring 'a strategic perspective to implementation issues'. In strategy process implementation research, the most 'realistic' studies recognise that 'formulation and implementation are intertwined' (Huff and Reger 1987), and that studies need to be sensitive to the content and the historical context of strategic decisions (Huff and Reger 1987).

Chapter 3: Methodology and Research Design

3.1 Introduction

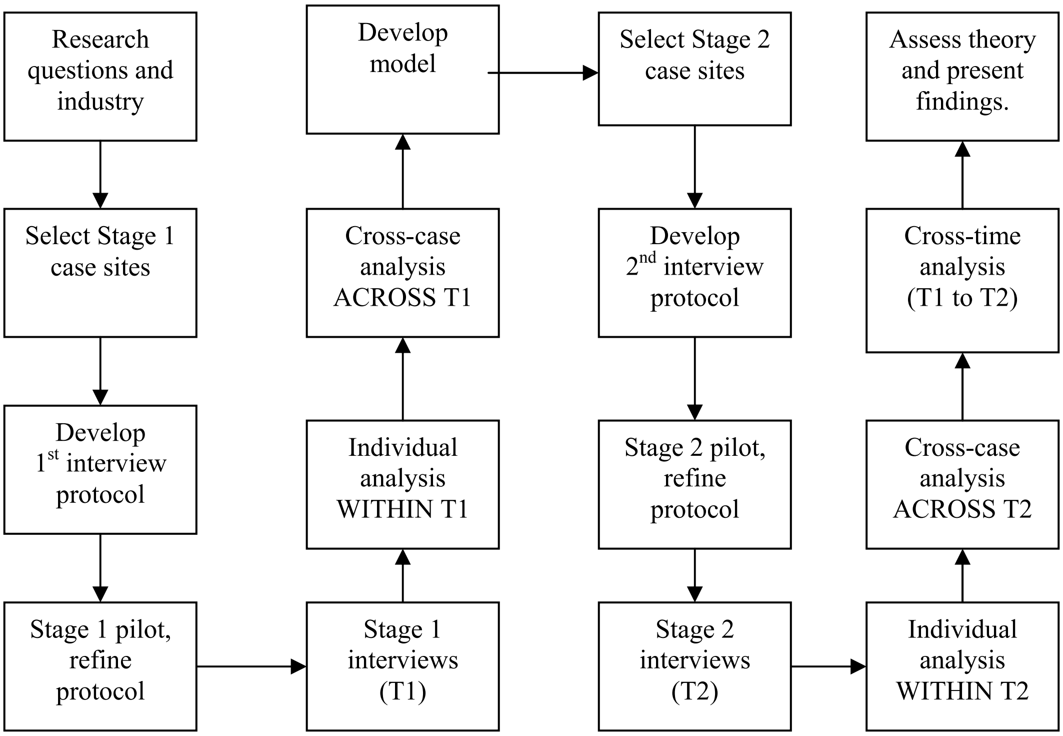
In the previous chapters research questions were identified, relevant literature was reviewed and a synthesis of concepts from existing theory was developed which informed the study. In this chapter the philosophical approach of the study is explained, the research design and research context are set out, the methodology is defined and the analytical approach taken in the study is described. The research design, which entailed a two-stage process involving two separate data collection phases, is explained and an overview is given of the methodology and methods used. The data collection and analysis procedures associated which each stage are discussed. This chapter has the following objectives:

- To describe the philosophical approach of the thesis;
- To describe the research design and context;
- To explain the methods used;
- To document data collection and analysis procedures.

Diagram 3.1 gives an overview of the research design, which is explained in this chapter. The study involved a synthesis of concepts from the extant literature which supported the research questions (Chapter 2). These questions guided an exploratory stage of the study leading to theory building (Chapter 4). A theoretical model was inductively derived from the first stage which was then tested and validated in the second stage of the study (Chapter 4). Both stages used qualitative data gathered from multiple case studies within a single industry case design. This chapter is set out in three main sections. The first positions the thesis in terms of its philosophical approach; the second describes the research design and the research context, the New Zealand wine industry; and the third explains the methods and procedures used.

The study was conducted to find out more about gaps in what is known about firm understanding and use of networks and relationships in strategy. In the existing literature identified in Chapter 2 to address the research questions, these gaps were as follows. The first covered the link between firm understanding of business relationships and how firm strategy is formed; the second, the link between the realisation of firm strategy and use of business relationships; and the third, the link between firm understanding of, and use of business relationships in strategy. Researching the research questions firstly required descriptive and perceptual data since they covered the inputs and outputs of a set of processes and interactions, and then theoretical explanation to build new understanding.

Diagram 3.1: Design of the research



The research questions related to 'what' and 'how' data as well as the underlying 'why'. It is useful to restate them here:

1. How do individual firms within the New Zealand wine industry understand their business relationships?

2. How does firm understanding of business relationships in this industry affect how they are used in strategy formation and realisation or not?

3. What explains the link, if any, between understanding of business relationships and their use in strategy?

The discussion first deals with the underlying philosophical approach taken in the study.

3.2 Philosophical Approach of this Study

This study builds on existing understanding of networks and relationships in strategy by bringing together concepts from the two key areas of the management literature which focus on these, namely strategic management and business networks. Thus the approach taken in this study was firstly, to explore the research questions in the context of two existing bodies of theory, and to assess their usefulness against field data, describing the networks and relationships in the industry under investigation, and analysing and understanding the firms' relationships and strategies in the industry. Secondly, from that process to develop and test new theoretical insights against a further set of data, to explain what processes had produced the relationships and strategies identified in the industry. Burawoy (1991) justifies such an approach to reconceptualising and extending theory:

> with the proliferation of theories reconstruction becomes ever more urgent. Rather than always starting from scratch and developing new theories, we should try to consolidate and develop what we have already produced. (ibid:26)

The research strategy used in this study is weakly constructivist (Orlikowski and Baroudi 1991). Orlikowski and Baroudi (1991) define weak constructivism as an approach which aims to understand existing meanings shared by actors and to interpret their actions by re-describing them, setting their activities or experiences into larger contexts of purpose or interpretation (1991:15). The author of the present study wanted to understand and interpret the firm and network actors' views, not to help create them. Theoretical explanations are built by the researcher and then tested. This is an interpretivist approach to gathering and analysing qualitative data, which builds on existing knowledge and then adds new insights, rather than the co-creating of new knowledge between the researcher and the informant inherent in the strongly constructivist approach. Diagram 3.2 positions the approach taken.

Diagram 3.2: Positioning the research strategy

Approaches to Social Science

Subjective = there are many realities | Objective

Interpretivist = use of symbols that express layers of meaning in human interaction | Positivist

Constructivist = belief that reality is a process of social construction | .../...

Strong
Understand via
co-creation

Weak
Understand via
re-interpretation

Source: Developed for this study from (Miles and Huberman 1994; Morgan and Smircich 1980; Orlikowski and Baroudi 1991).

Within the interpretive view 'researchers are no more 'detached' from their objects (sic) of study than are their informants' (Miles and Huberman 1994:8). Whilst the role of the researcher and her/his subjective assumptions is important in the weakly constructivist approach, it de-emphasises the researcher's personal involvement in the process, which is seen more as a retelling and theoretical interpretation of the *actors*' stories rather than the interlinking and co-creating involved in the strong constructivist view (Orlikowski and Baroudi 1991; Ulaga 2001; Urquhart 1999). This encompassed the goals of the present study of deriving constructs from the field and exploring phenomena which are not well-defined wanting to 'describe, interpret, analyse and understand the social world from the participants' perspective' (Orlikowski and Baroudi, 1991:15). So the research stance taken in this study is seen as 'weak' because the research area was well-defined but not completely understood - certainly the case with business networks as the gaps in the literature review clearly showed. It is not strong because the researcher used concepts defined in the literature *not* the researcher's assumptions, values and biases. However, the present study *does* see data as helping in theory building through extension (Burawoy 1991). The research presented here is certainly not critical – it does not seek to change the phenomenon (ibid 1991:17) though the author recognises that even bringing the concepts to the informant's attention and asking the questions may be an intervention of sorts.

3.2.1 Use of qualitative methodology

Qualitative data were collected for this study because the goal was to understand processes not to measure variables. The overall objective of clarifying how managers view relationships in strategy required collecting data from those managers on how *they* perceived their business relationships. The study was:

> attempting to develop explanations (whether or not these are causal) through detailed scrutiny of how processes work in particular contexts (Mason 1996:97).

The process involved generating data to explore process, similarities, differences, and to test and develop theory to explain these. The term 'methodology' can be used in a number of ways. It may be used to mean 'the study of method'; the 'nature of ways to study...phenomena' (Parkhe 1993); or it may be taken to mean 'the actual methods used in a certain piece of research' (Mingers 2001). In describing the approach to methodology in this study, Mingers' definition of methodology is useful:

> more general and less prescriptive than a method. It is a structured set of guidelines or activities to assist in generating valid and reliable research results (ibid:242).

In this thesis 'method' refers to the actual activities or techniques used in the research process and 'methodology' is a research strategy. Any research is positioned in a particular paradigm, which is a set of philosophical assumptions about ontology, epistemology, ethics or axiology, and methodology (Mingers 2001).

Van Maanen argues that qualitative methods are a group of interpretive techniques which are most likely, though not exclusively, to be used by researchers who favour a phenomenological approach, which is based on multiple compelling realities, rather than that of scientific empiricism, which is based on data which are verifiable by observation and experiment (Van Maanen 1983). Thus:

> qualitative strategies are essentially those emphasizing an interpretive approach in which data are worked with (and on) both to pose and resolve research questions (ibid:253).

The conceptual base for this study came from the belief that as network research and indeed research in the social sciences in general has progressed, a merging or overlapping of theories and disciplines has become apparent. New theories are being based upon a fusion of concepts from a variety of different discipline areas or upon hybrid approaches (Araujo and Easton 1996). Many studies in the network area have helped to build part rather than all of a theory and use illustrative rather than definitive data (ibid:371). More theory development is needed because the networks area is one in which there is, "high systematicity but relatively low clarity" (Araujo and Easton 1996:65), with the concern that we have a rich metaphor but no substantive theory. Indeed Mattsson (1997) asserts that the markets as networks approach has been built by systematic observation of relationships over time and that:

> The existence of relationships was inductively discovered, as was the nature of interaction and the various aspects of interdependence between industrial actors (Mattsson 1997:450).

The present study theorised about the mechanisms involved in generating firms' observable networks and relationships. Whilst the study rejected the 'structured immobility' of quantitative approaches which:

> reduce the role of human beings to elements subject to the influence of a more or less deterministic set of forces (Morgan and Smircich 1980:498),

it acknowledged existing theory about networks and relationships before going on to theorise about the mechanisms involved in generating those firms' observable networks and relationships within one specific industry context.

The interpretations of the data presented here recognised the influence of the knowledge and theory discussed in Chapter 2. In terms of the networks and relationships on which this research focused, however, the study tried to avoid the tendency to over-objectify and to 'reify' the social world:

> to turn active, conscious social relationships and processes into things which exist independently of us so that we think of them in terms of 'having' rather than 'being' (Sayer 1992:16) based on (Fromm 1976).

The wider philosophical question of "do organisations *have* interfirm co-operative relationships or are they *in* them?" underpinned the study and is addressed in Chapter 5. In summary, however, the overall research design for this study was based on the following assumptions:

- The industry studied involves open social interaction not a closed system;

- The study's design aimed to add to or question existing theory;
- No predictive statements or provable causality are posited, rather some possible generative mechanisms are identified;
- The study leads on to tests for generalisability not to assert any generalisable conclusions.

In terms of the researcher's values, these were in a middle ground between the objective 'there is a social reality waiting to be discovered' and the constructivist 'we all construct our own reality'. The study relied on perceptual data, the informants (not respondents) created their own realities and were not just better or worse informed about some 'true' state of reality (Easton, Burrell et al. 1993). The social world under investigation could only be understood from the viewpoint of the researched, there was no privileged observation point and whilst the study built on some previously observed regularities (ibid) in business relationships, the study was essentially subjectivist. Table 3.1 gives an overview of some characteristics of qualitative research and a summary of their use in this study.

3.2.2 Theory building in this study

The goal of the present study was to add to theory, which may defined as:

> a set of interrelated constructs (concepts), definitions and propositions that present a systematic view of phenomena (Kerlinger 1973:9).

The twin purposes of theory are prediction and understanding (Zikmund 1994). Levels of theory relate to their generalisability: this study offers a mid range theory, an understanding based on one context which is not yet necessarily generalisable. The research took a problem that was not clear to contribute to its resolution, offering substantive theory pertaining to a particular context rather than formal or grand theory (Glaser 1978; Glaser and Strauss 1967). Eisenhardt (1989) outlines theory building from case studies, advocating identification of important constructs from the literature before data collection but warns that: 'no construct is guaranteed a place in the resultant theory' (Eisenhardt 1989) and argues that:

> theory-building research is begun as close as possible to the ideal of no theory under consideration and no hypotheses to test (ibid:536).

Table 3.1: Characteristics of qualitative research and their use in this study

Feature	Authors	Definition	Comments: use in this study
Grounded in 'interpretive' tradition or in ethnography	Mason (1996) Miles & Huberman (1994)	Social world is interpreted, understood, experienced A process of uncovering and observing	A middle ground approach, some factors have already been identified - need to explain these and more explanation needed.
Analytical induction	Van Maanen (1983) Mintzberg (1983)	Patterns from first hand data on which generalisations are built based on their power to explain the data; Involving 'detective work' and 'the creative leap'	Yes, but a need to establish what is already explained within a context then to generate new explanations.
Proximity, Active role of researcher	Van Maanen (1983) Mason (1996) Strauss & Corbin (1990) Miles & Huberman (1994)	Prime reliance of field investigation and observation where possible; Calls for self-scrutiny & reflexivity Skills of researcher Competence of analysis central	Yes, though emphasis here on the reported perceptions of informants not so much on observable behaviour.
Ordinary behaviour, Naturally occurring	Van Maanen (1983) Mintzberg (1983) Mason (1996) Strauss & Corbin (1990) Miles & Huberman (1994)	Topics are in the natural setting for those studied Focus on real organizational terms Contextually sensitive Ordinary events, lived experience	Yes, interaction with informants took place in their surroundings. Interview protocols as free from jargon as possible.
Temporal sensitivity, Sustained period	Van Maanen (1983 Miles & Huberman (1994)	Patterns of behaviour must be studied in a relational and historical perspective;	Yes, data checked with informants and emergent theory tested subsequently.
Structure as ritual constraint	Van Maanen (1983)	The discovery of structure rather than its imposition	A middle ground approach – some network and relationship structures had already been identified.
Descriptive emphasis, 'thick description'	Van Maanen (1983) Mintzberg (1983) Miles & Huberman (1994	Describe and reveal what is going on in the studied scene; Simple methodologies Richness of data	Yes, this approach very much supported in the present study.
Shrinking variance	Van Maanen (1983)	Explanation of commonality, similarity and coherence	Yes, though theoretical difference in use of relationships in strategy very clear, explanation derived on basis of these procedures.

Synthesis, Holistic	Mintzberg (1983) Mason (1996) Miles & Huberman (1994)	Of elements into clusters Rounded understanding of complexity, detail and context	Yes.
Systematic data collection and these supported by anecdotal data	Mintzberg (1983) Mason (1996)	Clear chain of evidence and documentation of data.	Yes.

Source: Developed for this study

However, unless one takes a completely grounded approach (Glaser 1978; Glaser 1992; Glaser 1994; Glaser and Strauss 1967; McLoughlin 1995; Strauss and Corbin 1990) this is impossible. Whilst 'preordained theoretical perspectives or propositions may bias and limit the findings' (Eisenhardt 1989:536) it *is* possible to extend extant theory using the case study method (Burawoy 1991; Dubois and Gadde 2002). Whilst not pursuing the research strategies put forward by the grounded theory school, primarily because this study was done within the context of explicit theoretical underpinnings, it is useful to note the distinction between description and interpretation put forward in the grounded theory approach Strauss and Corbin (1990).

Strauss and Corbin (1990) propose that illustration is what the observed world is like and interpretation is a conceptualisation of that reality. They define building theory as the development of theoretically informed interpretations and see it as the most powerful way to bring reality to light (Blumer 1969; Diesing 1971; Glaser 1978). The theoretical framework that results can be used not only to explain that reality but to provide a framework for action (Strauss and Corbin 1990). Whilst this study used inductive techniques in developing a model from the Stage One data to test in the second stage, which may be seen as 'inductively derived from the study of the phenomenon it represents' (Strauss and Corbin 1990:23), the findings were not 'discovered'. Rather the study was built more purposefully than a grounded theory situation where one begins with an area of study and 'what is relevant is allowed to emerge' (ibid). The model used in the second stage of this research was, however, developed and subsequently, "verified through systematic data collection and analysis of data pertaining to that phenomenon" (ibid).

In the case of organisational or process research, the aim is to get behind the observable to theorise about the mechanisms of processes which cause that which is or has been observed. Thus a multiple in-depth case study approach was used to understand what the mechanisms or processes were which generated the observable facts in this context – hence the drivers that created the networks and relationships which were identifiable. Crucially, an interpretivist approach views the data as valid from the point of view of those who are involved in creating and managing the observable (ie the interfirm networks and relationships).

3.2.3 The case study method

This section gives an explanation of the use of the case study method in this study and how the research was designed within that. The case method has been used extensively in network research (Dubois and Gadde 2002; Easton 1995a; Halinen and Törnroos 2004) since, using

Yin's (1984) definitive approach to the case study method, it has a specific advantage when a 'how' or 'why' question is being asked about a 'contemporary set of events, over which the investigator has little or no control'. In preparing a case study method researchers are advised first to review previous research to develop sharper and more insightful questions about the topic. Yin provides a definition of a case study:

> A case study is an empirical inquiry that: investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin 1994:23).

The overall design for the study, was one of a multiple-case single industry approach. To use Yin's (1984) classification "a multiple-case study may consist of multiple holistic cases" (Yin 1984:58). In this instance a single industry study involved a number of companies as case studies, as shown in the design for the study in Diagram 3.3. According to Yin, evidence from multiple cases is more forceful and the resulting findings more compelling, especially if it follows replication logic, which is the case in this study.

Diagram 3.3: Case study design options

	Single-Case Design	**Multiple-Case Design**
Holistic (single unit of analysis)	Type 1	**Type 3** **This study**
Embedded (multiple units of analysis)	Type 2	Type 4

Source: Yin 1989:46

In-depth semi-structured interviews were conducted using a number of data collection points. As argued by Elg and Johansson (1997) in their work on decision making in interfirm networks:

> Applying a multi-level design was considered essential, given our multi-dimensional theoretical perspective (Elg and Johansson 1997:369).

This follows from their attempt to understand the interaction processes between 'observable, surface' aspects of the particular phenomenon under investigation and 'deep structure…(which is)…hard-to-detect' (Elg and Johansson 1997:366). The present research also aimed to get behind the observable and explain behaviours and their associated mechanisms in interfirm co-operation and relationships. There have emerged arrays of techniques which come under the qualitative umbrella (Denzin and Lincoln 1994; Miles and Huberman 1994; Van Maanen 1983). A key unifying theme, however, is "a reliance on multiple sources of data" (Van Maanen 1983:255).

3.2.4 The role of the researcher

The ontological approach taken to this study was centred around the belief that whilst there were multiple subjective realities, which "open up different ways of seeing" (Smircich, Calis et al. 1992:229) among the interviewees, there were also some established theories which could explain how they reported their networks and relationships. The epistemological stance of the study was one which combined the application of established understandings with new 'co-elaborated' understanding (with the interviewees, since for many this had been the first time they had described their networks or relationships) (Miles and Huberman 1994). The study recognised the researcher's key role in qualitative research and his/her beliefs about that research: "The data do not generate the theory - only researchers do that" (Mintzberg 1983:109). The researcher defined the spatial and temporal domain of interest and gathered data using description of phenomena as near to the source as possible (Van Maanen 1983). Whilst the study was conducted based on some clearly defined concepts from the literature in Stage 1, these were explored with respondents in a semi-structured interview, which allowed an 'unfolding of social processes' (Van Maanen 1983:10) and some flexibility to since:

> the key analytical decisions of qualitative study are most often accomplished by the investigator in the research setting itself (and that) the selection of substantive topics to pursue in a given study cannot be disembodied from the actual research process itself (ibid:14-15).

The discussion now considers the design of this interpretive case study-based theory-building research.

3.3 Research Design

To help the reader to understand the procedures used in this study, Diagram 3.1 gave an overview of what steps were taken. Stage 1 of this study took a snapshot of the networks and relationships of the interview firms. Stage 2 then went on to develop a theoretical model of drivers of networks and relationship strategies, constituting the theory in the act of describing it (Mir 2001). The theory developed is offered only for the specific context of the study and is not intended for generalisation, since:

> research findings should not be generalised unless they can be replicated across samples, populations and research methods (ibid:1171).

To be clear, whilst the study was strongly informed by theory, the approach taken in the research design was to develop and extend theory. The end point of exactly what could explain the diversity of networks and relationships in the research context was not known at the beginning. As Van Maanen points out, citing Weick, qualitative researchers do not always know, "exactly what they have studied until they have written it up and passed it around" (Van Maanen 1979:253). This thesis is the culmination of the 'passing around' process.

Jick (1979) argues, citing (Denzin 1978), that 'the combination of methodologies in the study of the same phenomenon' allows a more holistic, finer meshed view of the phenomenon under investigation. Jick recommends triangulation and defines the term as the use of multiple reference points which may be enabled in terms of method used:

- Across method - using more than one method in the study of the same phenomenon;
- Within method - using the same method but with multiple observations cross-referencing;
- Across theories - bring diverse theories to bear on the same phenomenon (Jick 1979).

The research design outlined above approximates to the second of these three approaches, using what Mingers (2001) refers to as a 'sequential' research design: one in which methods are used in sequence with results from one feeding into the later one. Table 3.2 summarises advice from Parke, Yin and Eisenhardt on the design of case study research to ensure validity, and this is expanded in Section 3.4 in assessing the validity of the research findings. The design of this study derived from the goal of developing theoretical explanations and was also based on the author's limited pre-existing understanding of the research context. The New Zealand wine industry was selected for research as it appeared to exhibit well developed strategies of competition and co-operation together with strong personal networking and industry body involvement (Benson-Rea and Wilson 1994). A number of studies have shown that wine companies in general (Araujo and Brito 1997; Benjamin and Podolny 1999; Brown and Butler 1995; Rabobank 1999; Swaminathan 1995), and New Zealand wine companies in particular, use networks and relationships in their strategies (Beverland and Lindgreen 2001; Lindgreen 2001; Mabbett 1998; Wilson and Benson-Rea 2001).

Table 3.2: "Scientific rigor" and this case study research

Criterion	Strategy	Phase	Comments	This Study
Construct validity	Triangulate multiple sources	Data collection	Use interviews, documents.	Carried out in Chapter 4.
	Establish chain of evidence	Data collection	Explicit links among questions asked, data collected and conclusions drawn.	Carried out in Chapter 4.
	Informant review	Analysis		Done in between Stage 1 and Stage 2 interviews, and by expert checks.
Internal validity	Within-case analysis	Analysis	Systematic pattern matching in: 1. Initial case study, 2. Match with literal replications, 3. Match with theoretical replications.	This is done in Stage 1 and Stage 2 analyses in Chapter 4.
	Explanation building, hypotheses based on 'why'.	Analysis	Links data to emergent theory while ruling out alternative explanations and rival hypotheses.	This is done in making the link between Stage 1 and Stage 2 in Chapter 4.
	Time series analysis	Analysis	Determine causal events to ensure that sequence of cause and effect cannot be temporally inverted.	This is done in making the link between Stage 1 and Stage 2 in Chapter 4.
External validity	Theoretical (not random) sampling to constrain extraneous variation and focus on theoretically useful categories.	Research design	Systematic pattern matching in: 1. Initial case study, 2. Match with literal replications, 3. Match with theoretical replications.	See Chapter 3 on research design and Chapter 4 on sampling for Stage 2.
	Use replication (not sampling) logic in multiple cases	Research design	Analytic (not statistical) generalisation through induction.	See Chapter 3 on research design.
	Compare evidence with literature	Analysis	Uncover commonalities and conflicts then push to generalise across cases.	See Chapter 5.
Reliability	Develop case study database	Data collection	Formally assembled evidence.	This was done in the Nud*ist programme database, evidence appears in Appendix 3.4.
	Use case study protocol	Data collection	Thorough and systematic documentation.	These appear in Appendix 3.2.

Sources: Parkhe (1993: 260-261) based on Yin (1994) and Eisenhardt (1989)

3.3.1 The three domains of the research

The review of the literature in Chapter 2 showed a number of gaps in current understanding of how firms understand and use their networks and relationships in strategy. Having identified these, the research sought to understand and explain them by detailed investigation of firms within an industry context and theorising on what could explain the mix of their strategies and relationships. In the design of the study three identifiable and inter-linked domains were present in the research setting (Bhaskar 1978; Easton 1995a; Tsoukas 1989). These can be classified as the real, actual and empirical (Bhaskar 1978) and are set out in Table 3.3. According to Bhaskar the *real* domain is characterised by mechanisms which create events which appear in the *actual* domain and are experienced by observers in the *empirical* domain. In the literature on networks and relationships, there is agreement that these can take certain forms but there is much less clarity on the mechanisms and processes which produce them. Using Bhaskar's (1978) typology, the firm's networks and relationships were seen as falling within the empirical domain, 'where events are experienced by observers'. Here the outside observer (the researcher) can identify the physical processes by which relationships operate and the forms they take: the interactions, inputs and outcomes. Empirical data can show meetings, decisions, contracts, amounts of resources exchanged or activities co-ordinated. However, processes within business relationships are less observable, and therefore fell into what Bhaskar refers to as the actual domain, 'where events created by the interaction of the real mechanisms appear'. Networks and relationships appeared in the actual domain and were observed but were not explained. The 'independent-from-observer mechanisms which create events' occurred in the real domain and these were perceived as the causal or explanatory mechanisms which could not be observed but may be explored and theorised.

In this research, data on relationship processes and structures were seen as more tangible and requiring less interpretation, judgement and theorising than those on motivations, since values and beliefs could not be objectively verified – only their outcomes were observable. However, some aspects of networks and relationships were identified as factors or mechanisms which created events but were independent from the researcher and were not necessarily clear to the actors displaying the behaviour which caused the events. These included some parts of business relationships where patterns and regularities could be identified and explained, and reasons for them theorised. This discussion is expressed in Table 3.3.

Table 3.3: Bhaskar's domains applied to the present study

Empirical domain	'where events are experienced by observers'	Data collection
Actual domain	'where events created by the interaction of the real mechanisms appear'	Data Interpretation
Real domain	'independent-from-observer mechanisms which create events'	Theory

Source: Based on Bhaskar, 1978

This section has described the middle ground philosophical position taken in the present study. Whilst the overall approach was one centred around multiple subjective realities, and the requirement to interpret data in the form of the views of participants in field research, it was tempered by the belief that within a particular context there were some observable characteristics which could be objectively agreed. Chapter 4 goes on to show how the data were analysed and then theorised at the firm, relationship and environment levels. This was based on Whittington's view of the need to understand the strategic context from a realist perspective: firms within one industry face a similar choice set and this research showed how the interaction between these three levels played out in each firm's approach to relationships in strategy (Whittington 1988). The discussion now goes on to discuss the contingent nature of the research.

3.3.2 The importance of context

In order to add to theory about the use of networks and relationships in strategy it was important to get behind the merely observable or measurable to understand the forces at play within a real business situation, otherwise the research ran the risk of the problem of the positivist methodology which has been critiqued as simply 'adding more variables' (Easton 1995a:387) and by the cry that, 'all we really know are the questions we ask and the answers we get' (Gardner, cited in (Churchill 1979)).

Easton (1995a) makes a forceful argument for network research based on the contingent context. This is a view also taken by Van Maanen, who emphasises the need to understand what the data gleaned from an informant represent in 'possible contextual meaning' (Van Maanen 1979:50). The weakly constructionist position taken in this research was appropriate as there was some already agreed knowledge in the area but there was a need to get behind what was already known and identified to build new theory. Within the social phenomenon of firm relationships and networks some dimensions could be identified in the objective world, as well as existing in people's minds and experience, and some stable relationships could be distinguished within them. Thus there were:

> regularities and sequences that link together phenomena. From these patterns we can derive constructs that underlie individual and social life. The fact that most of those constructs are invisible to the human eye does not make them invalid (Miles and Huberman 1994:4).

The mixed approach in this study is supported by Miles and Huberman (1994) who believe, with the interpretivist school, that knowledge is the product of a social context and that some social phenomena exist objectively whilst subjective processes (whilst they do exist) can be 'transcended' by:

> building theories which account for a real world that is **both** bounded **and** perceptually laden, and to test these theories in our various disciplines[4] (ibid:4).

According to Van Maanen (1983) qualitative research places great importance on contextual understandings based on, "direct, firsthand and more or less intimate knowledge of a research setting" (1983:10). How and why cooperation arises in particular industries rather than others is an area of increasing research interest (Axelrod 1984; Browning, Beyer et al. 1995; Ring and Van De Ven 1992; Trice and Beyer 1993). The contingent context is an especially powerful foundation as it avoids the trap of generalisability in qualitative research (Easton 1995a). Thus the present study rested on the notion that specific industry level studies could contribute to understanding of what drivers may underlie events in particular contexts. Calton (1995) makes the point that:

> adopting a network perspective ... means adopting a different intellectual lens and discipline, gathering different kinds of data, learning new analytical and methodological techniques, and seeking explanations that are quite different from conventional ones (Calton 1995:5).

Within the context of the firm's co-operative interactions there was a need to clarify the nature of relationships since it is clear from the relationship marketing literature, for example, that the dyadic customer-focal firm or supplier-focal firm relationships are a part of the wider array of a firm's network of relationships (Easton 1992). Thus the phenomena under investigation in the present study were the managerial understanding and values that informed involvement in business relationship strategies. These were set within the context of the gamut of strategies pursued by actors within a particular industry (Pettigrew 1988), the New Zealand wine industry, and the relationships that underpinned these strategies. In terms of defining the network of relationships, Perrow's (1986) wide remit was used:

> The investigator chooses how to measure the degree of interaction between any two organisations, so it is she who constructs the network to show the density of various parts (Perrow 1986:198).

In his overview of the network approach, Easton (1992) sets out the belief that the stability and durability of relationships among firms engaged in economic exchange is a fundamental stimulus for using inter-organisational relationships as a research position. In keeping with this approach the analysis of the New Zealand wine industry carried out in this study

[4] Emphasis added.

attempted to cover the totality of the relationships within that particular 'industrial system' (Easton 1992; Mazet-Crespin 1995). The spatial boundaries were defined by 'natural' geographic boundaries (Mazet-Crespin 1995:14) - the interview firms were located within sub-regional clusters of the wine industry in both the North and South Islands of New Zealand. Having considered the general notion of context, the specific setting for this study is now described.

3.3.3 The New Zealand Wine Industry

This section briefly describes the New Zealand wine industry, providing the background to the study. For the interested reader a more detailed overview is available in Appendix 3.1, see also (Benson-Rea, Brodie et al. 2003). New Zealand is a relatively new entrant to the global wine market, having grown rapidly, both domestically and in terms of export sales, from the 1980s onwards, though grapes have been grown here since the arrival of the early European settlers in the nineteenth century (Benson-Rea 1996; Lewis 2001; Mabbett 1998). Table 3.4 gives some key indicators of the New Zealand wine industry covering the period of the research. It shows the strong growth the industry has enjoyed over the ten year period from 1990-2000 in all areas, except average yield – which is an indicator of quality whereby quantity is sacrificed for a lower yield of higher quality grapes.

Table 3.4: Key indicators of the New Zealand Wine Industry

Indicator	1990	2000	% change
Number of wineries	131	358	173 ↑
Total vine area (hectares)	5800	12194	110 ↑
Producing area (hectares)	4880	9752	100 ↑
Average yield (tonnes per hectare)	14.4	8.9	62 ↓
Wine production (million litres)	54.4	60.1	10 ↑
Wine exports (million litres)	4.0	19.2	380 ↑
Wine exports ($million)	18.4	168.6	816 ↑
Domestic sales of NZ wine (million litres)	39.2	40	2 ↑
Imported wine (million litres)	4.5	28.6	535 ↑
Imported wine ($million)	27.8	127.3	358 ↑

Sources: (Bank of New Zealand 2001; Ministry of Agriculture and Forestry 2000).

Globally, wine production fell slightly during the 1990s, though production in the New World increased over that period (Parminter 2002). New Zealand's production area[5] of 13,200 hectares in 2002 has grown by around 1,000 hectares over the last five years and is expected

[2] Area that is in vines.

to increase to 18,000 ha in 2006 (Anderson 2001; Parminter 2002), thus increasing our wine production in the longer term. A major issue for New Zealand producers is the associated growth of processing facilities and marketing and promotional efforts required to match this expansion. The quantity of New Zealand wine for export is forecast to grow by 160 per cent over the period 2002-2006, as domestic consumption is kept steady (Parminter 2002).

The New Zealand Ministry of Agriculture and Forestry has referred to ‘profound changes in world wine markets’ and attributes this primarily to changes in consumer tastes (ibid). Demand has also been falling during the 1990s (ibid), especially in traditional wine consuming countries. The New Zealand industry has particular strengths in high quality single varietal wines (especially Marlborough Sauvignon Blanc) which brings New Zealand wines the highest average price in the UK, its largest export market (Rabobank 1999). As a highly priced discretionary item, New Zealand wine exports are dependent on consumer preferences and economic growth.

The importance of supermarkets in wine retailing has been growing in Europe, North America and Australia (Advanced Business Research 1999; Rabobank 1999) as has the impact of their lower margins (15-25 per cent) (Wittwer 2001; Wittwer and Anderson 2001). In the UK 60 per cent of wine sales are through ‘grocers’ (supermarkets) and 94 per cent of those sales are below the critical price point of £5.00. The average selling price for New Zealand wines in that market is above that amount, at £5.14 (Mikic 1998). Whilst New Zealand wines are highly regarded and can attract higher margins for the quality and differentiation, and indeed the higher cost structures of the industry here requires higher prices, the pressures to reduce margins to achieve consumer awareness is a difficult balance (PriceWaterhouseCoopers 2000). New Zealand’s high cost structures are in part attributable to:

- Lack of scale economies (for volume production options);
- Climatic conditions – the cooler climate in the Lower South Island prevents ability to ripen as much fruit as in the North;
- The higher cost of equipment here (relates to distance and lack of scale);
- The cost of land (Barwell 1990).

This high cost base relative to its competitors meaning it requires ultra/super[6] premium positioning for a return on investors’ funds, limiting the industry’s capacity to reach new consumers in different segments should they wish to do so: New Zealand wines could only be purchased by 5-10 per cent of consumers in most international markets (PriceWaterhouseCoopers 2000:31). The alternative is to produce ‘to a price’ for

[6] The six levels of wine positioning may be labelled: Icon, Ultra Premium, Super Premium, Premium, Commercial and Commodity.

supermarkets, which could damage the focused differentiation strategy pursued by much of the New Zealand industry. Furthermore, the volume strategy (selling at below £5 per bottle in the UK market) is only viable for the largest 3-4 New Zealand wine companies and those associated with large international distributors .

In terms of industry governance, the industry body formed in 1975 to self-regulate, promote and represent the interests of wine companies, the New Zealand Wine Institute, merged in 2002 with the body representing grape growers, the Grape Growers Council, to form Winegrowers of New Zealand, thus institutionalising the close co-operative relationship and common membership which has developed over the last 15 years of the industry. At the firm level there is a clear distinction between very small, 'boutique' producers, co-operative groups of smaller producers, independent medium-sized wineries (a diminishing group) and global level drinks companies. The key trends among smaller players are concentration or amalgamation, either horizontal of vertical, personality- or location-based branding, lifestyle values, and a focus on quality. Trends among drinks conglomerates include global presence and scale, and portfolio approaches to location and products through alliances or horizontal mergers and acquisitions[7]. The industry is seeing the emergence of very large scale wine corporations, particularly in Australia (which include New Zealand subsidiaries) and the US, which resemble transnational organisations in that they are associated with ownership driven strengthening of the vertical integration and distribution, with multiple site production.

The New Zealand wine industry is very small and geographically proximate, involving some 400 players, with 30 of significant size, within a country with a population of 4 million. In addition to sharing geo-spatial features, all grape growers and wine producers are legally obliged to belong to a single industry body, the New Zealand Winegrowers, and the Institute has led planning and development of the industry (Wine Institute of New Zealand 1979; 1993; Winegrowers of New Zealand 2002). Thus the industry boundaries and players are clearly delineated and actors are well known to each other. In such a small and seemingly homogeneous context strong norms and rules seem to have emerged within the industry which can be identified and grouped. Simultaneously, however, the present study demonstrated a plurality of views of industry strategy based on the integration of two sets of norms: one rural/farming-based (Moran 1993; Moran, Blunden et al. 1993) and one encompassing those of the Fast Moving Consumer Goods (FMCG), agribusiness and hospitality sectors (Rabobank 1999). The industry has been characterised as one involving both 'a processed

[7] However, Anderson (2001) cites a study by SBC Warburg which claims that the global wine industry is the least concentrated. In 1999 the world market share for the top four firms in wine was 7%, as against 20% for beer, 44% for spirits and 78% for soft drinks.

agricultural commodity' and a 'cultural icon' (Mabbett, 1998:3) and which exhibits features of both industrial and agricultural production (ibid:34).

In examining the processes of strategy and relationship evaluation within the industry a distinct sociological rather than business/economic focus emerged. Thus the context of this study, the New Zealand wine industry, is an industry group which exhibits complex linkages of many different kinds. One of the explanations given for the success of the New Zealand wine industry over recent years relates to the pre-existence of the factor conditions required namely:

- Historical background;
- Supporting industries – suppliers of grape stock, irrigation, harvesting equipment, barrels, labels specialised PR and advertising companies, wine publications for consumers and trade;
- Institutions – the New Zealand Wine institute
- Weaker linkages to other clusters such as agriculture, food, restaurants, tourism (Porter 1998).

Porter (1998) argues that, with its emphasis on productivity, innovation and new business formation, specialised information develops in a cluster and personal and community ties build trust and assist information flows, making information more transferable.

The New Zealand business context is rather unique: exhibiting strong social bonds among actors- it has a small, close but also highly independent business culture. It is highly internationalised but retains features of newness and post-colonial business and societal structures. Within the wine industry, entrepreneurial, lifestyle and corporate players have joined a traditional core of family based firms (primarily Croatian but also French, Spanish and German (Lewis 2001)). The industry continues to experience rapid and strong international growth which brings new relationships to the mix in terms of ownership and corporate governance. The New Zealand industry resembles other wine regions in terms of structure and organisation in:

- The split between rurally based grape growing and more urbanised production, marketing and promotion (Araujo and Brito 1997)[8];
- The high rate of new entrants (Brown and Butler 1995);
- The segmentation of wineries into size and output-based categories (Swaminathan 1995).

However, Lindgreen expresses the practical question of strategy about the New Zealand industry. Thus:

> there is still a need to understand more about how wineries practically manage being embedded in multiple relationships and networks...(and)…how do wineries compete and co-operate within relationships and networks? (Lindgreen 2001:13).

The present research adds understanding to both the theoretical and practical underpinnings of this statement. The business linkages of the firm and the importance of the firm's

[8] The distinction between what Mabbett (1998) describes (after Williams, 1973) as "the country and the city".

relationships with others are increasingly seen as an important alternative view of the firm, particularly in juxtaposition with the transaction-based view of the firm. Further, governments, including the New Zealand Government, have allocated large sums in order to stimulate "networks" of smaller firms which can achieve economies of scale and scope within cooperative relationships with, among others, firms which they would see as competitors. Much research is still to be done as to the nature of the naturally occurring phenomena as well as the externally stimulated or induced cooperative strategies. The next section describes the case study firms.

3.3.4 Case company selection

In this study exploratory and confirmatory sampling drove data collection (Denzin and Lincoln 1998). In case study research selection of an appropriate population controls extraneous variation and helps to define the limits for generalisability, eg to size, environment, industry, and to clarify the domain (Eisenhardt 1989). The present study was limited to one industry. Sampling when building theory from cases usually relies on theoretical sampling – in which cases are chosen for theoretical not statistical reasons, 'to fill theoretical categories and provide examples of polar types' (Eisenhardt 1989). Pettigrew also thinks that it makes sense to choose extreme situations or polar types in which the process of interest is 'transparently observable' (1988). The goal of theoretical or purposive sampling is to choose cases which are likely to extend or replicate the emergent theory. This was the technique used in the present study. The following tables show the population of companies from which the interview companies were drawn. Tables 3.5 and 3.6 give a breakdown of New Zealand wine companies according to size category according to volume of wine sales and by region. The New Zealand wine industry was chosen as the vehicle for the present research because:

- The researcher had a little previous understanding of it (Benson-Rea 1994; Wilson and Benson-Rea 2001);
- The industry appeared to exhibit features of cooperation and competition;
- It was straightforward to identify companies and their locations through New Zealand Wine Institute membership.

In setting out the population from which the wine companies were sampled, it should be noted that the size category into which some of the medium-sized companies are put can vary from year to year depending on actual production in the previous year. In selecting firms for the second stage of the research size category change was ignored as a temporary phenomenon and the focus on continuity of the study and in-depth study were seen as important factors. Table 3.7 shows information about the firms interviewed in Stage 1. Because the industry is so small it would be easy to identify the companies if any more detailed information about them were presented here. In terms of sampling, the firms were selected from the membership categories of the New Zealand Wine Institute. Firm levies to that body are calculated by annual sales so that the categories are thus: Category I (small): <200,000 litres; Category II (medium): >200,000 and <2,000,000 litres; Category III (large): >2,000,000 litres.

Table 3.5: Wine Institute of New Zealand (WINZ) membership 2000 by size category

Size/Volume	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Category I (small) Annual Sales < 200,000 litres	135	152	160	174	188	221	244	272	313	337
Category II (medium) Annual Sales between 200,000 and 2,000,000 litres	12	11	12	13	12	13	14	17	17	23
Category III (large) Annual Sales > 2,000,000 litres	3	3	3	3	4	4	4	4	4	4
Total	150	166	175	190	204	238	262	293	334	364
Thus: medium/large:	15	14	15	16	16	17	18	21	21	27

Table 3.6: WINZ membership 2000 By Region

Region	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Northland	5	5	4	4	4	4	5	6	7	7
Auckland	59	60	55	57	58	65	68	70	80	84
Waikato/Bay of Plenty	11	9	10	12	11	12	13	14	13	13
Gisborne	6	7	8	7	9	9	8	9	12	15
Hawkes Bay	14	21	21	23	24	31	33	35	41	47
Wellington	13	18	19	21	24	26	31	34	33	34
Nelson	7	8	7	9	11	12	15	15	22	25
Marlborough	13	13	20	28	35	43	47	52	60	62
Canterbury	15	18	23	20	20	24	27	34	39	42
Otago	6	6	7	8	8	11	14	23	26	34
Other Areas	1	1	1	1	0	1	1	1	1	1
Total	150	166	175	190	204	238	262	293	334	364

Sources: Wine Institute of New Zealand 2003.

Although the actual firms in the categories can change on a yearly basis, depending on the previous year's sales, the same firms from the original sample (ie based on their 1996 membership status) were followed through with the addition of one new one (for theoretical interest). Regional subsidiaries of the large wine companies are listed separately in Wine Institute membership and were thus interviewed as separate entities, though their strategies and relationships were analysed in the context of their parent company. This explains why there were more than four cases in the 'large' category. The large and medium-sized companies were selected based on an assumption of certain strategic sophistication and similarity in strategies pursued. Smaller business may have fewer strategic options, in terms of markets served and product range for examples, and they have much less complex strategic decision-making than larger organisations (Jocumsen 2004). In very small firms decision-making tends to reside in one single individual (Carson and McCartan-Quinn 1995).

Table 3.7: Stage One sample firm characteristics

Case No.	Size*		Age^	
	Medium (Category II)	Large (Category III)	Young	Old
2	√			√
3	√			√
4	√			√
5	√			√
6		√		√
7		√		√
8		√		√
9		√		√
10	√		√	
11	√		√	
12		√		√
13		√		√
14	√		√	
15		√		√
16	√			√
17	√		√	

* Wine Institute of New Zealand (WINZ) definitions, 1996, 1997, 2000.

^ Young = having established production circa 1980 onwards, old was pre 1980s.

3.3.4.1 Stage One

The first stage was effectively a poll of all large and medium-sized[9] New Zealand wine firms, some 23[10] firms, dispersed over the entire country. It proved impractical to visit the most isolated region, Gisborne and so those companies were omitted from the study. Thus during the first stage of the research 17 wine companies were interviewed in-depth. Of the 17 cases, the first interview was used as a pilot case and was not used in this analysis as the researcher had previous in-depth knowledge of the company (Wilson and Benson-Rea 2001) and this privileged information might have biased the analysis of that case. It was useful however to clarify questioning areas, prepare prompts and follow-up questions, simplify language (by

[9] As defined by the New Zealand Wine Institute.
[10] Previous close contact with one of these firms precluded its inclusion in the present study.

eliminating jargon) and to augment the researcher's knowledge of the research context. The purpose of Stage One was exploratory: its objective was to develop a rich description of networks and relationships within the research context, and it had some propositions to guide it. The 16 companies were interviewed face-to-face over a period of some 15 months in 1996 and 1997. These interviews were designed to:

- Establish contact with companies in the industry;
- Map out the basic structure of interactions within the industry;
- Enable an understanding of the dynamic processes within those relationships;
- Elicit the interest and involvement of companies in order to facilitate subsequent in-depth data collection.

A semi-structured question guide was used to elicit a descriptive account of the nature and structure of relationships within the industry from the point of view of the individual company/winery (Appendix 3.2). These interviews were transcribed verbatim and their content analysed using the computer package Nud*ist (Non Numerical Unstructured Data Indexing Searching and Theorizing). This is one of the numerous computer packages available to assist in the analysis of text based data, indeed Popping offers a review of some 38 of them (Popping 2000). From the themes identified in this exploratory stage a model of relationship drivers was developed. This model was tested in the second stage of the research. A smaller group of companies was selected from the wider first group with which to test and refine the model which leads to the development of a theory of relationship use in strategy. In both stages of the research the unit of analysis was the individual firm. Its strategies are described and analysed within the context of the industry as a whole but it is the individual firm which is of interest.

3.3.4.2 Stage Two

The purpose of Stage Two was to test an emergent model, again using qualitative data, which had been developed from theorising about the diversity of relationships arising from observations in Stage One of the research. Stage Two involved a series of in-depth interviews with 8 wine companies at the interviewees' business premises, using a more structured questioning frame (Appendix 3.2). This was undertaken in 2000, thus giving a time lapse between the first and second interviews and data. Most researchers and evaluators only ever gain a snap-shot of network dynamics (Fulop 1995) but the present research was based on two data points. From Stage 1 a considerable amount was already known about each firm's networks of relationships, and the key relationships for each of the 16 firms interviewed in Stage 1 had been mapped out and identified. Emergent theory informed the judgement by which Stage 2 firms were selected. 8 firms were sampled for theoretical interest which had similar industry characteristics but exhibited very different approaches to relationships and strategy (see Section 4.4). Thus the Stage Two firms were selected based on three categories expressing dominant relationship styles and these were:

- Relational: in which social or personal contacts and interactions predominate;
- Transactional: in which impersonal or arm's length contacts and interactions predominate;
- New hybrid: in which the firm uses a combination of these approaches together with some new ones.

Firm size (as defined by the Wine Institute in terms of litres of production) and age were taken as independent variables representative of the industry structure. Thus 4 younger firms, of which 3 were small and 1 large, and 4 older firms, of which 2 were large and 2 small, were selected. The characteristics of interest in Stage Two were the firms' approaches to relationships in strategy and the sample firms are shown in Table 3.8.

Table 3.8: Stage Two sample firm characteristics

	Size		Age		Predominant Relationship Style		
Case No.	Medium	Large	Young	Old	Relational	Hybrid/ mix	None or Transactional
1	√		√			√	
2	√			√			√
4	√			√	√		
7		√		√			√
8		√		√	√		
9		√		√		√	
10	√		√		√		
14	√		√				√

The informants in Stage Two were managers in New Zealand wine companies who had already participated in the earlier phase of the research and had previously indicated their interest in and willingness to be involved in a further stage of interviews. Whilst the subjects were owners or employees of wine companies, the units of analysis were the companies themselves and their strategies. Confidentiality was particularly important in such a small industry. There were 4 large companies in the industry and 26 medium sized ones – including subsidiaries[11] (Wine Institute of New Zealand 1999). Three of the 4 were selected, so it could have been apparent which ones these were but a great deal of information about these firms was already in the public domain. Furthermore, commercially sensitive data were not being sought or used but rather data which were theoretically useful. The topic was a dynamic but analytical one: not one on which data disclosure might have elicited commercial value. The aim was to understand choices, motivations and understanding within the firm rather than

[11] In 1996-97, when the research was begun, there were 18 WINZ member companies in the large and medium categories.

market sensitive future actions. Thus 6 of the 26 medium-sized firms were selected which made them difficult to identify, given their geographical dispersion. In order that individuals or groups could not be identified, every effort was made to abstract the data, to focus on analysis and to avoid gratuitous description. In testing the model of relationship drivers, questions were designed to explore and validate the propositions which underlay the model. This section has outlined the research design and case companies, the next part deals with specific methods and procedures.

3.4 Research Method and Procedures

This section outlines the techniques and procedures used to gather and analyse data for the study. A description of protocols, procedures and methods for each stage of data collection and analysis follows including the development of a case study database, sources of evidence, chain of evidence, as well as issues of data analysis and validity (Perry 2000; Yin 1994). The key decision in the management of the data was to use the Nud*ist programme to build and store the case data, to help to analyse it and to generate documents during the life of the study which illustrated the developing understanding of the networks and relationships in Stage 1 and the testing of the process model in Stage 2.

3.4.1 Data collection procedures

Table 3.9 lists the study's research questions and related sources and methods of data collection. The procedures outlined here were in keeping with Bonoma's view of case research:

> the goal of data collection in case research is not quantification or even enumeration, but rather: (1) description, (2) classification (typology development), (3) theory development, and (4) limited theory testing. In a word, the goal is understanding (Bonoma 1985:206).

In order to maximise understanding, in both stages of the data collection process the present study focused on the view of the head of each firm. These ranged from co-heads of family-run firms to what one might term professional or career managers in Chief Executive Officer (CEO) or Chief Operating Officer (COO) positions (Carson and McCartan-Quinn 1995). The aim was to seek information from the most knowledgeable members of the studied scene (Van Maanen 1979). Whilst the sample companies in the present study were medium-sized and large, the interviewees would be the CEO of very small firms in international terms[12].

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[12] In terms of numbers of employees and turnover.

Table 3.9: Sources of data for this study, collection methods and justification

Research questions	Data sources and methods	Justification
1. How do individual firms within the New Zealand wine industry understand their business relationships?	Company owners/senior managers: interviews Industry documents, expert commentaries on the industry: textual analysis	Open-ended discussion sheds light on how firms see their relationships. Secondary data enable factual verification of events and sequencing.
2. How does firm understanding of business relationships in this industry affect how they are used in strategy formation and realisation or not?	Company owners/senior managers: interviews Industry documents, expert commentaries on the industry: textual analysis	Managers are best able to explain how they see their business relationships and how they use them in strategy. This is a totally internal process to the firm and possibly to the person. There may not be an explicit link but we can only find this out by exploration. Secondary data show the development of the industry and strategies within it. Expert books and articles shed light on the context and the strategies pursued by the industry
3. What is the link, if any, between understanding of and use in strategy of business relationships?	Company owners/senior managers: interviews Industry documents, expert commentaries on the industry: textual analysis	Open-ended discussion sheds light on this. Managers are best able to identify how they see their networks and what they use them for, what they put in and what they get out of them. Discussion about change helps to see the dynamics of networks. This may help in assessing theoretical relevance to other industry contexts. Knowledge of the industry helps understanding of these and some objective measures can be identified to put beside subjective accounts. Again, factual industry knowledge helps verification and secondary data enable factual verification of events and sequencing.

The interviewee at each winery was at approximately the same top level in the hierarchy in each one to avoid source bias. CEOs may respond to research questions in systematically different ways compared with other managers, and thus researchers must match the use of CEOs as single informants with appropriate research questions (Sharfman 1998). CEOs will have a complete picture of the organisation's environment, strategy, structure and performance (Hambrick 1981).

A critical factor in the research design was the importance placed on engaging the interest and involvement of the interviewees. The New Zealand business community is not unique in being heavily canvassed by an active community of researchers. Thus overtures to companies need to engage their interest to differentiate them and to do this it is important for them to see its relevance (Wong-Rieger and Rieger 1993). As well as meeting the theory development goals of the study a two-stage process also overcame the research problem of the limited amount of data one can gather in any one interview without over-taxing the respondent (Mazet-Crespin 1995). A process of progressively building up the engagement and interest of the interviewees (whilst progressively narrowing the focus of the data collection) was also important to gain insight into the phenomena under investigation, given the difficulty of visibility of network relationships and interaction (Håkansson and Johanson, 1988). In-depth knowledge of the research setting also enriches the ability of the researcher to understand the context in qualitative research (Van Maanen 1983). In terms of the practical aspects of network research there was a potential problem of time period, as the dynamics of relationships can change indicating an important distinction between 'episodes' (ie exchange of some kind) and longer-term aspects of relationships (Mazet-Crespin 1995). Eliciting details of both episodes and relationship dynamics again required in-depth interviews. These in turn required the interviewee to have time to think of complex issues and to remember. Mazet-Crespin suggests that there is a trade off between listing the relationships and then exploring the linkages and the network connections. The data collected for this study were the result of a first approximately one-hour to one and a half hour interview, which gave some initial information and insight. The dynamics and depth of relationships were further explored with a second smaller sample in a second longer interview a year or more later. This process allowed a longitudinal perspective to be pursued, which ultimately aimed to explain 'underlying generative mechanisms' (Huber and Van de Ven 1995), how they developed, and their effects in terms of events and circumstances in a particular context.

3.4.2 Interview techniques

The interviews conducted in this study used different types of question (Gaskell 2000) and examples of those used in the study are shown in the topic guides at Appendix 3.2.

- Inviting – can you tell me about?
- Taking things further – can you tell me more about?
- Eliciting contextual information – when, where, who and what?
- Projective – what sort of...?
- Testing – from what you say what would you think if...?
- From specific to general and vice-versa – in your experience, can you give me an example of that?
- Taking a naive position – I am not very familiar with...how would you describe to new...?
- Final thoughts – has the discussion covered... anything else...?

Levine (1980) discusses the use of such techniques in interviewing as appreciating the emotional states of informants, looking for clues, exploring suspicions, considering what language is used and with what level of accuracy, building rapport and methods of cross-examination. These approaches may be used during data gathering and analysis, but researchers need to know how to trust the results of these techniques. The questions were developed from the literature review and were designed to elicit descriptive data. Thus a semi-structured format was designed with open-ended questions and prompts and this was used in order to:

- Give structure so the interviewee felt comfortable;
- Ensure that the interview was conducted systematically as far as possible;
- Ensure that the research issues were at least touched on;
- So comparisons could be made (Easton et al 1993).

Appendix 3.2 shows the versions sent to interviewees in advance of the interviews as well as the interviewer versions with suggested prompts.

As to the actual data collected in the interviews, White (1980) discusses problems with the issue of memory, or 'temporal decay'. There is also the problem of retrospective responses - do informants remember accurately or are they misleading themselves (as well as you)? Researchers must accept the interviewees' responses as their perception, and assume a lack of rationality. Questions had to be couched in concrete terms since people cannot always tell you what you want to know. Thus in the research reported here informants were asked about outcomes and how these were arrived at rather than processes. The process of theory building came from abstracting and theorising about responses and the causes of such reported outcomes. Conversely, Nisbett and Wilson (1977) refer to interview situations as, 'telling more than we can know'. Researchers must recognise that there may be little or no direct introspective access to higher order cognitive process. Subjects may be unaware of:

- The existence of a stimulus that importantly influenced a response;

- The existence of the response;
- The fact that the stimulus has affected the response (Nisbett and Wilson 1977).

When people report on their cognitive processes they may do not do so on the basis of any true introspection. Rather their reports may be based on *a priori* implicit causal theories or judgements about the extent to which a particular stimulus is a plausible cause of a given response.

Nisbett and Wilson suggest that people cannot observe directly their own cognitive processes but they can sometimes accurately report on them. Accurate reports will occur when influential stimuli are salient and are plausible causes of the response they produce. In their industries and competitiveness study, Easton et al (1993) advocated interviewing business people face to face since they found that observers did not see the industry in the way in which actors within it did:

> This crucial data source has been ignored by many commentators who tend to assume 'unequal cognitive power' on their own part and build in a 'superiority' based on non-participation (Easton, Burrell et al. 1993:293).

Whilst not denying 'a role for dispassionate analysis' Easton et al make a plea for respect of the perception of those involved and that view strongly informed this study.

3.4.3 The interviews

Tables 3.10 and 3.11 show the interview timetables for both stages of data collection.

Table 3.10: Stage 1 interviews

Company	Interview date 1996-97
X*	1 April
2	1 May
3	9 July
4	9 July
5	16 July
6	22 July
7	24 July
8	5 August
9	5 August
10	12 August
11	12 August
12	12 August
13	13 August
14	13 August
15	24 February
16	24 February
17	1 September

* = Data not used in final analysis, pilot only.

Table 3.11: Stage 2 interviews

Company	Interview date 2000
X*	14 March
1	4 April
2	9 June
4	28 March
7	3 April
8	29 May
9	6 April
10	27 June
14	28 June

The Wine Institute (WINZ) Annual Report, and more recently its website, lists full contact details of each member winery, including telephone and fax numbers, location address and the names of the principals. This information was used to contact the wine companies. Each person was first telephoned by the researcher, who explained the purpose of the research and requested an interview. This dialogue was based on the contents of the Participant Information Sheet (PIS) drawn up for the purposes of University of Auckland Human Subjects Ethics Committee (UAHSEC) approval procedures – such approval was granted in 1996 for three years and was subsequently extended in 1999. The Participant Information Sheet, as evidence of Ethics approval, is given in Appendix 3.3. Only one region, the Gisborne region, was not visited for interview for practical purposes. However, this involved only subsidiaries of the large wine companies, and these cases were represented elsewhere in the sample. Of the WINZ member wineries, all of the large companies were interviewed and all but three of the medium-sized ones. The exclusion of these three was due to the principals being unavailable on numerous occasions. Only one interviewee had to be convinced to be interviewed, but proved to be extremely co-operative having given consent. One interviewee agreed to be interviewed but then said nothing that was not in the public domain and was extremely guarded in comments made. This was useful data in itself and was treated as such in the analysis and discussion. All interviewees signed consent forms and these are being stored according to UAHSEC guidelines.

3.4.4 Sources of bias and ethical consideration

Mingers observes that very few research reports discuss the relationship between the researcher, the methods used and the research site (Mingers 2001). Different methods, applied to the same data, may give different results. A positivist view would be that there should be no relationship between researcher, methods and research site but, "in an interpretive analysis the role of the interpreter must be acknowledged" (2001:255). Denzin and Lincoln (1998) identify that the researcher can shift between inductive data collection and analysis and deductive testing and verification. In terms of verification of biases Denzin and Lincoln (1998) list the more frequent problems as:

- Data overload in field, which leads to missing information which in turn overweight findings and skew analysis;
- Focusing in first impressions, highly concrete or dramatic events;
- Selectivity, overconfidence in some data, especially when trying to confirm key findings;
- Co-occurrences taken as correlations or even causal relationships;
- False base-rate proportions: extrapolation of number of occurrences from observations;
- Unreliability of information;
- Over accommodation to information that questions outright a tentative hypothesis (Denzin and Lincoln 1998:199).

When a researcher is detected by a social system, the system has been disturbed and the researcher, being part of the process can only report on the changed situation (Barley 1995; Huber and Van de Ven 1995). Whilst the present research was conducted on the basis of interviews, and not ‘intervention’, allowance must be made in the interpretation of the data for the fact that questions were asked which the interviewee may not have considered before.

3.4.5 Data analysis

The analysis of the 16 interviews was done in two ways. Firstly, each interview was analysed in terms of an individual case study, ‘within case’. Secondly, the cases were analysed ‘across case’, a process which enabled interim conclusions to be drawn on the research questions and propositions and a model to be inductively developed for testing in Stage Two. The first procedure allowed detailed insight into and understanding of the individual firm level view of its relationships with others within the various industry levels - firm, industry and environment. The second procedure allowed for the development of a two-fold perspective. One, which aggregated the case data in an emergent multi-level view of the case industry as a whole (firm, industry and environment) and a second which permitted some theoretical explanation of similarities, patterns, differences and outliers in terms of relationships and strategies within the industry. In both stages of the present study, the interviews were transcribed verbatim and put into the computer programme Nud*ist. During data analysis Eisenhardt (1989) urges the researcher to search for cross-case patterns but warns of the danger of premature and even false conclusion: we must look at data in many different ways. She suggests:

- Select categories or dimensions;
- Select pairs of cases and list similarities and differences - subtle ones, then groups;
- Divide the data by data source - exploits unique insights possible from different types of data ;
- Constantly compare theory and data, iterating towards a theory that fits with the data;
- Sharpen constructs by: 1. Refining the definition of the construct, 2. building evidence which measures the construct in each case.

Eisenhardt (1989) notes the frequent overlap of data analysis with data collection when using the case study method. Indeed she urges the researcher to take advantage of flexible data collection, to make adjustments through the process, saying that researchers can add questions to a protocol or questionnaire. She believes that it is legitimate to alter and even add data collection methods during theory building research if the aim is to understand each case individually and in as much depth as possible. The goal is not to produce summary statistics about a set of observations. This method is not a licence to be unsystematic, rather it is a situation of ‘controlled opportunism’ to take advantage of the uniqueness of a specific case and the emergence of new themes to improve resultant theory. Stage two of the present study selected one case company which had not been in the first stage 'sample' because it had not been in operation during the time of the first stage of data collection and it appeared to offer a completely different (new) approach to using its relationships from the other case companies.

3.4.6 Data analysis procedures

Table 3.12 summarises the data preparation and analysis procedures employed in this research and this section describes each step. As outlined above, all interviews were recorded on micro-cassettes with the interviewee's permission. The tapes were then played through by the researcher afterwards for an understanding of sense and flow. Then the tapes were transcribed using a micro-cassette transcriber with foot, speed, volume and tone controls. In addition the printed transcripts were checked back against the tape and corrections made. Finally the text documents were prepared (formatted) for entry into the Nud*ist programme. The following outlines each stage in the data preparation process.

3.4.6.1 Cleaning up the raw data

The data in this research came from face-to-face interviews which were tape-recorded and transcribed into text. Pauses and natural fillers in conversation were eliminated in the texts analysed as much as possible to make the text readable and understandable. However, an attempt was made to leave as many speech idiosyncrasies in the interview transcripts as possible and substantive content was not changed. Within the analysis in Chapter 4, however, where examples have been taken from interviews, elisions have been made and are indicated, to try to get to the meaning and theoretical relevance of points made during the interview. In preparing the interview transcripts a number of practical issues arose, particularly relating to quality and interpretation. Because the interviews were conducted at the wineries' premises, ambient noise interference was a problem in several cases and one or two words in those interview transcripts were indecipherable. However, it is believed that thorough and repeated examination of the tapes and the transcripts, together with attempts to understand the data, have eliminated major errors of interpretation. Ambient noise was a serious problem in one of the Stage 2 interviews and the researcher was forced to take the tape to the University's audio laboratory for the sound to be re-mixed and the interference from a noisy dishwasher in the interviewee's farmhouse kitchen to be greatly reduced!

Table 3.12: Stage 1 analytical procedures

Data stage	Action/Output	Software
1. Raw data	Interview tapes transcribed verbatim	MS Word
	Transcripts edited (cleaned up) for extraneous 'ums' and 'ahs'	"
2. Cleaning up the data	Texts introduced into Nud*ist programme	QSR Nud*ist
	Texts coded	"
	Key themes identified and analysed	"
3. Coding the data	Reports produced for each interview	MSWord and QSR Nud*ist
4. Data reduction	Reports produced: 1. Descriptive account of: (i) Company structure and strategy; (ii) The firm's key relationships. 2. Simple value system diagram of firm's key relationships 3. Summary of nature and functions of firm's relationships 4. Relationship levels and strategic outcomes diagram 5. The company's view of the industry context through their stories/narratives from the interview	MSWord

Source: Developed for this study

3.4.6.2 Cleaned up data

After tidying up the raw data in the interview transcripts (elimination of 'ums' and 'ers' and page formatting) the texts were introduced into the Nud*ist software programme. The Nud*ist software programme assists users in handling, storing, indexing and searching non-numerical data, primarily text (Qualitative Solutions and Research Pty Ltd 1996). In order to handle the volume of data uniformly and allow the creation of index databases, the text used had to be presented in a particular format. Adding some structure enabled the programme to locate, search, save coding and cross reference noted and memos about the data. This was done in several ways. Firstly, formatting the text. Formatting needed to be compatible with the programme, specifically eliminating 'soft returns' (default line breaks) and inserting 'hard returns', that is manually inserting where the breaks in the text should be. These formatting issues were critical as they imposed the size of the text unit. The text unit may be a word, a line, a short paragraph or a longer paragraph (QSR 1996). The choice was important as, if the text unit was too large, irrelevant text may be coded and retrieved during analysis. If it was too short, the text unit may have been taken out of sentence context and make no sense in isolation. The following guidelines were considered:

Table 3.13: Text unit size

Possible text unit size	Possible uses
Word	Linguistic analysis of discourse and word meanings
Sentence	Where sentence construction relevant eg in linguistic analysis Document uses sentences eg legal documents
Lines	Text uses lines eg some poetry Flow of text not disturbed eg South America split over 2 lines
Paragraph	**Document has short paragraphs eg newspaper** **Each paragraph addresses different topic** **Paragraph represents speech in conversation**

Source: QSR, 1996

Since the text used in this research represented speech in a quasi-conversational setting, the semi-structured interview, the paragraph was the most suitable text unit size. However, the actual length of the text units across all of the interview transcripts varied. Whilst the researcher made decisions about where to put paragraph breaks in the raw text, the following rules of thumb were used:

- A natural break in the conversation, where the interviewee paused and the interviewer interjected;
- The content of the text: where possible a paragraph contains one major theme carried through, although long responses, particularly some of the stories, had to be broken down into shorter paragraphs in order to follow it in text form.

Secondly, headers. These are used to identify documents in Nud*ist and may contain names, dates, topics etc. These pieces of information were not part of the data to be coded, though they could be used for referencing and checking. They were thus excluded from the text units by an asterisk to mark the beginning and ending of a header. Tables 3.14 and 3.15 show the amount of textual data collected at each interview and how this translated into text units for analysis. The amount of data collected at each interview was more in Stage 2 than Stage 1 (average pages were 12.4 and 9.4 respectively).

Table 3.14: Summary of data collected in Stage 1

Case	A4 Pages of data	Text Units (TUs)	Average TUs per page	Comment
2	10	216	21.6	A balanced mixture of prompting at the beginning then less questions and longer responses as the interview develops.
3	11	265	24.1	Ditto.
4	11	170	15.45	Ditto.
5	8	138	17.25	Shorter interview as less voluble interviewee.
6	9	103	11.4	Shorter interview, very direct and to the point responses.
7	7	94	13.83	Shorter interview, with a reserved interviewee.
8	8	92	11.5	Shorter interview, very direct and to the point responses.
9	11	65	5.09	Normal length interview, with loquacious interviewee, whose responses are lengthy.
10	10	224	22.4	Balanced mixture as above.

11	7	143	20.43	Shorter interview, direct responses.
12	12	106	8.83	Again, an enthusiastic interviewee, with few interjections from the interviewer.
13	6	119	19.83	A short interview but with lots of text units, indicating very short responses.
14	9	170	18.89	Short responses as above.
15	10	163	16.3	Balanced mixture as above.
16	10	109	10.9	An enthusiastic interviewee.
17	11	120	10.9	Ditto.
Total	**150**	**2297**	**15.31**	
	m=9.4 p			

Source: Developed for this study

Table 3.15: Summary of data collected in Stage 2

Case	A4 Pages of data	Text Units (TUs)	Average TUs per page	Comments, especially comparing Stage 1 and Stage 2 interviews
1	11	197	17.9	Not interviewed in Stage 1
2	14	200	14.3	More topics covered in 1 than 2, with long responses.
4	17	224	13.2	Much more covered in 1 than 2, with long responses.
7	7	183	26.1	Much more covered in 1 than 2 though staccato.
8	11	234	33.4	Much more covered in 1 than 2 with lots of interaction.
9	17	239	14.1	Much more covered in 1 than 2, with long responses.
10	9	169	18.8	Not same person as interview 1 – one principal in each
14	13	353	27.2	Much more covered in 1 than 2 though staccato.
Total	**99**	**1799**	**20.6**	
	m=12.4 p			

Source: Developed for this study

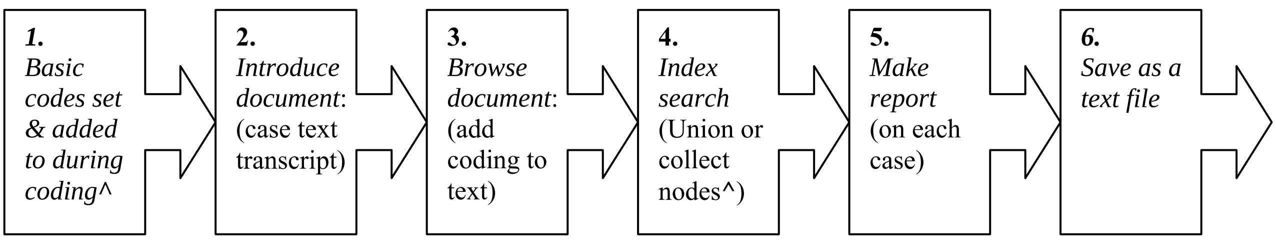
3.4.6.3 Coding the data

As described above, a semi-structured questioning frame had been developed from the literature and the theoretical development underpinning the research design. The questioning frame was designed to elicit responses which would give an overview of most aspects of the interviewee's account of how the company handled its relationships within the industry context. The key objectives at this stage of the research were:

- To understand the context of the research in more depth;
- To gain an initial insight into each firm's view of its relationships;
- To begin to build a research relationship with the interview and her/his company;
- To clarify constructs and variables in order to construct an inductively derived theoretical explanation of the use of relationships within the industry which could then be confirmed using a more deductive approach (Miles and Huberman 1994).

Whilst the Stage 1 questioning frame was derived from concepts in the literature, the responses that interviewees gave were focused on actual concrete examples of relationships. The pilot case interview had shown that industry respondents were not attuned to the abstract notions behind questions. What emerged were specific relationship-focused discussions rather than conceptually-based ones. Rather than talk about abstracts, interviewees could talk about what actually happened in relationships. It was the role of the researcher in the analysis phase then to relate these to second order constructs. Thus in coding, rather than focus on kinds of relationships or relationship processes, the focus in the first level of data reduction was on description of relationship content. Together with the analysis of patterns, this was used within each case to draw some conclusions about the nature and use of relationships within the case winery. The initial codes were established under value chain type headings as these were found to be representative of how the respondents saw their business relationships. These were: grape growers, other supplies, company, industry, agents and distributors. Under each of these headings relationship content, process, duration, evaluation were then coded. A full list of codes for Stage 1 appears at Appendix 3.4. These relate to Stages 1 to 3 in Diagram 3.4, which shows the steps in the Nud*ist procedures. It was important to have codes which would enable themes to be identified across the cases as well as within them, so commonalities and differences could be explored. Some initial codes were established from the research design. These were then added to and refined as coding progressed. Thus an initial though loose theoretical structure was imposed on the coding but the coding was developed and deepened by adding categories which emerged from the data. Thus whilst the first stage research design is theory-driven, the coding and analysis are grounded in the data (Miles and Huberman 1994). The development of the coding is shown in Appendix 3.4.

Diagram 3.4: First stage Nud*ist coding procedures



^ See list in Appendix 3.4

After coding all the documents, the first level of data reduction was to look at what each winery had said about key relationships. The key relationships varied from case to case but it was important to get a holistic summary for each case. This was done by exploring all coding under umbrella headings, step 4 in Diagram 3.4 above. The procedure followed was to collect everything in the Nud*ist coding under the heading and then explore the data for the individual case. Extracts from Nud*ist appear at Appendix 3.4 to illustrate this process. A new document for each case which explored the specific relationship was then made for each winery and saved as a text file for further enquiry and exploration. An example of this also appears at Appendix 3.4.

3.4.6.4 Data reduction

According to Miles and Huberman (1998) data reduction, the process of eliminating extraneous data and focusing on data which are relevant to the research question and theory building/testing, takes place before, during and after data collection. Thus the data are selected by the choice of conceptual framework, research questions, cases and research instruments. During the data collection phase selection may occur again as interim and early analyses are carried out. This supposes simultaneous data collection and analysis which was not done in this research. During the present study, whilst the data were read with interest and checked along the way during the collection phase, no major analysis was done until the first stage of data collection was completed and thus the questioning frame did not change. It had been designed as a semi-structured instrument precisely in order to be flexible enough to understand the context of different companies within the industry under investigation. The intensive phases of data reduction therefore occurred in Miles and Huberman's third phase, after data collection, 'as final products are approached and completed' (Miles and Huberman 1994:181). In this phase a number of methods of data display and analysis were used. Data displays are ways of organising and compressing information in order to think about meanings arising from it (Miles and Huberman 1994). They allow the full set of data to be viewed in one place to allow for systematic analysis. Such displays may include: structured summaries, synopses, networks and matrices of text (Miles and Huberman 1994).

3.4.6.5 Narrative analysis

A further approach taken in the data analysis to bring out patterns and themes was to highlight some of the stories which arose from the narratives represented by the field interviews (see Appendix 4.1). This is in keeping with the socio-economic view of business and markets that:

> Building markets is enabled only by communication within shared genres in discourses and action (White 2002:321).

Coffey and Anderson (1996) use Denzin's (1989) framework to contextualise a narrative account, recommending his definition of narrative as: 'a story of a sequence of events that has significance for the narrator and her audience', and which has a logic that makes sense to the narrator at least (Coffey and Atkinson 1996; Denzin 1989). Citing Mishler (1986) Coffey and Anderson (1996) argue that interview responses can be considered in terms of the stories they embody (Mishler 1986). Stories are seen as a form of discourse everyone knows and are thus an easy way to talk to a stranger (researcher) about experiences and events. They serve a number of functions:

- Way of ordering careers or memories in series of stories with key happenings;
- Particular groups or organisations retell to pass on cultural or organisational culture (White 2002);
- Tales of success or atrocity used to maintain collective organisational culture or profession.(Coffey and Anderson, 1996:56).

The stories identified for each case study interview may be likened to the 'critical incident' approach in that they helped to give access to complex phenomena in an unconscious, informal way by analysing the way the interviewee recalled or recounted episodes or experiences which were prominent in the memory when asked about business relationships and as such may be seen as significant (Clandinin and Connelly 1998; Cope and Watts 2000). Coffey and Anderson write of the 'storied qualities of qualitative textual data' (1996:57), how social actors order and tell their experiences, why they remember and retell what they do. They believe that: "The structuring of experience can hence be analysed alongside meanings and motives." (ibid) and this approach was used to encapsulate particular and varied views of business relationships in the New Zealand wine industry.

3.4.6.6 Procedures for across case analysis

In drawing conclusions in the across case data analysis, use was made of Miles and Huberman's 'multiple, iterative tactics' (1994:181) for drawing meaning and verifying meaning, namely as set out in Diagram 3.5:

Diagram 3.5: Across case analysis

From: Descriptive

1. Noting patterns and themes
2. Seeing plausibility, making initial sense
3. Clustering
4. Use of metaphors
5. Counting
6. Comparison/contrast
7. Partitioning variables
8. Subsuming particular into general, moving between two
9. Factoring
10. Noting relationships
11. Finding intervening variables
12. Building a logical chain of evidence
13. Making conceptual/theoretical coherence,
usually comparing referent constructs in the literature.

To: Explanatory

Source: Miles and Huberman 1994:186-7

3.5 Validity and limitations of this study

Validity involves showing that data are unbiased, relevant to the phenomenon under investigation and that results are replicable or verifiable. McGrath et al (1982) identify four types of validity: internal, conclusion, external and construct (1982). Cook and Campbell argue that external validity is irrelevant for case study research for testing of a theory since one single study cannot be generalised (Cook and Campbell 1979). However, since external validity is about how generally relevant findings are, research which is relevant to one industry sector may well have relevance for another and Miles and Huberman (1994) assert the importance of research that aims to be relevant. External validity can be assisted by replication logic in multiple case studies – the approach used in this study. Whilst measurement is not the goal of qualitative research, construct validity can be increased through empirical work, using multiple sources of evidence and establishing a chain of evidence (Miles and Huberman 1994; Yin 1994). Internal validity is about showing causal relationships as opposed to spurious ones (Yin 1994) and may be defined as how positive researchers can be about their findings. Ways of ensuring rigour and thus validity in case study research set out in Table 3.2 are followed in the present study's design, data collection and data analysis (Parkhe 1993). Reliability involves showing that the study could be replicated and achieve the same results. This requires that results should be stable, dependable and predictable based on full documentation of the data and results.

The key limitations of the study were decisions taken on the sampling procedures and the industry context, which limits generalisability. These are now discussed along with issues of validity and sources of bias. In this study in-depth data were interpreted into a complex and rich source of understanding which was made possible in a practical way by engaging the interest of key informants and taking the first stage findings back to them before gathering further data from them. The words used in the presentation of the data are largely theirs, and expert review of the findings found that they had strong resonance with the people in the industry. In uncovering layers of meaning in the research, the data may be demanding for the reader: one of the most difficult aspects of this qualitative research and data was to keep the meanings of the informants, express the richness of the data, conceptualise it theoretically but not to lose the essence of how the informants perceived their relationships and networks. On reflection the two-stage emergent research design was risky in terms of not knowing exactly where it was going but the strength of the approach taken in this thesis was that it was guided by a strong focus on the literature and existing theory.

Sampling Procedures

In order to make the research design manageable and do-able, and also assuming a level of organisational maturity and strategic complexity (Carson and McCartan-Quinn 1995), the decision was made to limit the study to the larger New Zealand wineries, thus excluding the smallest companies in the New Zealand wine industry, so there may have been significantly different data and conclusions if the study had included very small firms. This would have involved some kind of sampling among the 300 plus smallest New Zealand wineries. However, the research used what was effectively a census of all the medium and large New Zealand wine companies. The decision was also taken to focus on the wine companies themselves as the units of analysis and focused on only one half of each relationship dyad and thus the study data were limited to the focal wine companies themselves and did not take the views of other suppliers and buyers in their wider networks into account.

Coding

The coding of the documents in both stages was entirely based on the researcher's interpretation, though with clear definitions from the literature for each emerging construct (see Appendices 3.2 and 3.4). Whilst this was consistent across all of the cases, the researcher might have worded the questions differently or coded in a more fine grained way. The value systems diagrams used in Chapter 4 do not represent the complexity or completeness of the VCS in which the firm's activities are embedded but, when asked to talk about their relationships, this was how they were able to do it and it made sense to the interviewees. Overall, however, the coding and analysis are clearly documented, are held in the case data base in the Nud*ist computer package and are available and replicable. Use of the computer package was critical to ease of data storage and analysis. The package does not do the analysis for you but gives you the tools to ask questions about the data.

3.5.1 Sources of bias

Sources of bias have been identified for this study covering the interviewer, the interviewee, the setting or context, some constraints and enablers and signals of bias in the text/content.

The interviewer

The researcher might have gotten closer to the interviewees, and sought more of their free-flowing reflections rather than relying on a pre-prepared semi-structured questioning frame. Lack of experience and wanting to elicit the informants' views meant that the researcher had less confidence about inserting herself into the interview and thus left it to the questions and the interviewee. The researcher's own particular bias was whilst possessing an understanding of theory in the research, the interviewees were the ones who understood *their* business relationships and *their* strategies and relationships, even if they did not make the connection among these explicit. Grounding the questions in the literature gave structure and some confidence of the real world relevance of the issues to them, as well as of theoretical relevance. Qualitative research is complex and emergent and the trainee researcher is unaware of the level of learning and insights that develop as you get to know more about your data through analysing it. Time is required to conceptualise through reflecting on the data and for the reflexive emergent relationship between research questions and analysis.

The interviewees

What the informant says is always influenced by the interviewer (Maxwell 1996). A number of references were made by the interviewees to qualifications, education and training which possibly reflected how they saw the interviewer from a University PhD programme. There were a number of occasions when reference was made to "you probably know that…" or "do you understand…?" and the researcher was careful to say "can you explain how *you* see that?" or "I think I do but would like to hear *your* view of…". It was only difficult to establish rapport with two interviewees. One was a very senior CEO and the other was interpreted as being not very outgoing. Many of the people interviewed had good communication skills as they represented their companies with customers and members of the public. Some, however, were highly skilled people with more affinity for the technical nature of the business. The vast majority of the interviewees were passionate about their businesses and only too happy to talk about their business relationships and there were no problems with access at either stage of the data collection. In terms of self-report bias, the researcher had been warned by a more experienced network researcher that interviewees would always claim more agency than had actually been the case especially in the establishment of networks. This turned out not to be a concern in the interviews, though data were triangulated using secondary sources and industry expert checks (Maxwell 1996).

The setting

All interviews took place at the interviewees' premises and were tape recorded. A couple of interviews were interrupted by telephone calls and one tape was difficult to hear as there was a farmhouse kitchen dishwasher going through its wash cycle! Interviews were held during the winter primarily being a less busy time in the vineyard. This enabled the researcher to visit production facilities and gain more background knowledge of the research context. There was concern that the industry might have been over-researched and the industry participants less willing to be interviewed for 'yet another study', but this proved not to be the case.

3.5.2 Issues of validity

In qualitative research, Maxwell (1996) defines validity as:

> the correctness or credibility of a description, conclusion, explanation, interpretation, or other sort of account (ibid:87)

Generalisability in qualitative research involves internal - generalising to the setting - or external - generalising to other settings (ibid). The scope of this research was limited to one industry in one country. In this research in-depth understanding of the local industry context was found to be crucial to an understanding of the phenomena under investigation. The research makes no claims about the ability to generalise its findings to other industries or geographical contexts. The findings are based on larger firms in the New Zealand wine industry and the specific approaches to relationships can be generalised to those firms and could now be tested with other wine companies, even to very small boutique wine producers. There is however considerable scope for testing for external generalisability in further studies, which is considered in the following section.

To assess the study overall, Table 3.2 above offers reflections on issues of validity, showing how these were addressed in the research design. In terms of evaluating the research, useful research tends to result from the convergence of several streams, an intuitive decision process and a concern with theoretical understanding and with real-world problems (Campbell, Daft et al. 1982; Davis 1971). This study has combined the literature from two key streams of the business management literature to understand the interaction between ways of understanding firm and manager behaviour: strategic management and business networks. It aimed at extending:

> existing theory by examining how the causal powers already identified act contingently in different situations (Easton 1995a:387),

and at identifying the generative mechanisms and the contingent factors responsible for observable patterns:

> Good theory goes beyond establishing empirical observed patterns, that is, it tries to explain what caused them (Van de Ven 1989:487).

Using Strauss and Corbin's (1990) 4 criteria for judging the applicability of theory to a phenomenon and Maxwell's (1996) approach to validity, the present study is now assessed.

Fit

If theory is faithful to the everyday reality of the substantive area and carefully induced from diverse data, then it should fit that substantive area. The models developed from data on the industry, combined with existing theory and the theory extended to apply to the industry context and thus fit the data. Interpretations were verified for their relevance to real life through expert and member checks (Maxwell 1996).

Understanding

As it represents that reality, it should be comprehensible and make sense to those studied and those practising in the area. The Stage 1 data were discussed with interviewees at Stage 2 and clarifications given on the nature and importance of particular relationships. Whilst the present findings have not been widely disseminated they have been shared and discussed at various industry and research fora (Benson-Rea 1995; 1996; 1999; 2001; Benson-Rea, Brodie et al. 2003; Benson-Rea and Wilson 1994; 2000; Wilson and Benson-Rea 2001). Evidence of descriptive completeness and accuracy is held in the verbatim transcripts in the case study database (Maxwell 1996).

Generality

If comprehensive, if the interpretation is conceptual and broad, theory should be abstract enough and have enough variation to make it applicable to variety of contexts related to that phenomenon. Nothing in the theoretical models generated by this research in Chapter 5 is specific to the wine industry, generic terms and concepts have been used and should enable it to be applied to any strategic setting. The resulting matrix and framework in Chapter 5 can now be tested in other settings.

Control

Theory should provide control with regard to action toward the phenomenon, because hypotheses proposing relationships among concepts are systematically derived from actual data related to that and only that phenomenon. The Stage 2 data analysis clearly show the direction and strength of the factors making up the models and have thus tested the existence of the phenomena in the research context.

3.6 Chapter summary and conclusions

In this chapter the design and methodology of the study were presented and the philosophical underpinnings of the study explained. The middle ground interpretive approach was described. The qualitative methods associated with the exploratory, theory-building and then confirmatory nature of the research questions and objectives were outlined and the procedures used in the descriptive/analytical and theory building stages of the study were described. The next chapter presents the data and its analysis.

Chapter 4: Data Analysis

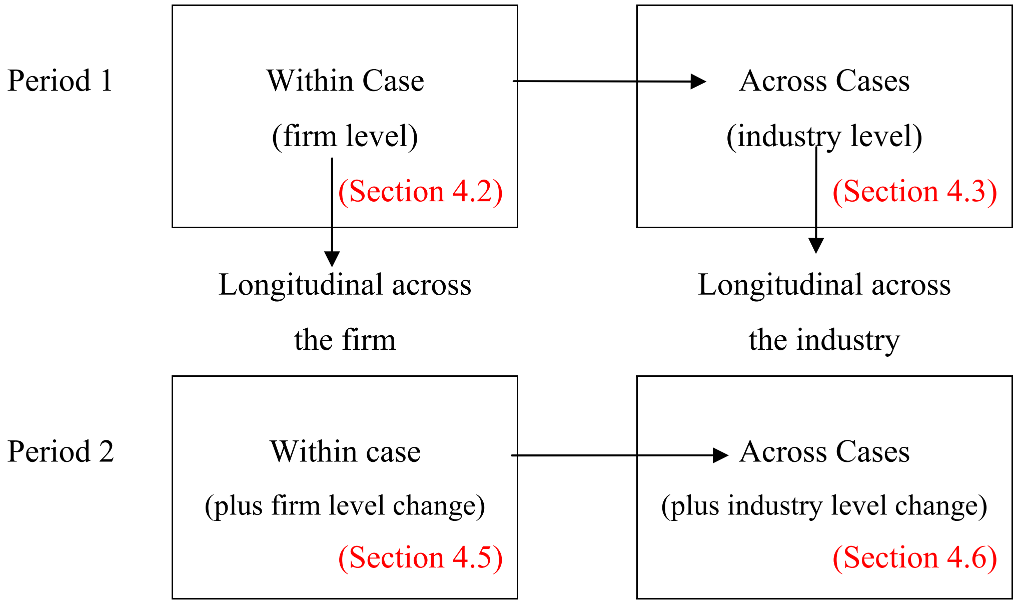
4.1 Introduction

This chapter presents the analysis of the data whose collection was outlined in the previous chapter. The next chapter discusses the findings within the context of the literature and the research questions set out in Chapter 2, and draws conclusions on them. In Chapter 3 the overall research design was explained, as was the approach to the multiple case industry-based study. A semi-structured questioning frame (see Appendix 3.2) was developed for Stage 1 of the data collection which was informed by theory and from which strategy and relationship themes emerged. These are set out in typologies of, firstly, relationships and their links to strategy formation and options, and secondly, strategies and how relationships were used in their realisation, later in this chapter. These analyses were used to develop an insight into how the case firms understood their business relationships and how they used them in their strategies in the research context. The themes which emerged from the first stage investigation were used to model relationship influences on or drivers of strategies within the case industry. The resultant model was then tested using data from in-depth interviews in Stage 2 of the data collection. This chapter has three objectives:

- To report on the findings of the first, exploratory stage of data collection;
- To set out the development of the second, confirmatory stage of data collection;
- To report on the findings of the second, confirmatory stage of data collection.

This chapter first sets out the exploratory data in which the strategies and relationships of the case firms are described. It then analyses the strategies of the firms and the ways relationships are used in these and the way strategy has (or has not) motivated the formation of relationships and identifies types of relationships and strategies within the industry. In seeking to develop an explanation of the diversity of these relationships, the chapter then analyses the confirmatory data phase of the research, in which a conceptual model of what drives relationships in terms of strategy was tested against a second set of case data. The analysis is thus set out in three parts. Stage 1 is covered in Sections 4.2 and 4.3: Section 4.2 presents the analysis within the cases and 4.3 then analyses themes across all Stage 1 cases. Section 4.4 links Stage 1 and Stage 2 and covers the development of the model from the first stage. Section 4.5 then sets out the Stage 2 data and analyses changes at the firm level between Stage 1 and Stage 2, and Sections 4.6 analyses industry level change. As was described in Chapter 3, the time gap between the two data collection phases allowed the following multi-level analysis shown in Diagram 4.1.

Diagram 4.1: Time periods and levels of analysis in this study



As outlined in Chapter 3, in the first stage of the research 17 wine companies were interviewed in-depth. Of the 17 cases, the first interview was used as a pilot case and was not used in this analysis as the researcher had previous in-depth knowledge of the company (Wilson and Benson-Rea 2001) and this privileged information might have biased the analysis of that case. It was useful however to clarify questioning areas and to augment the researcher's knowledge of the research context. The analysis of the 16 interviews which follows is presented in two ways. Firstly, each interview was analysed individually within case. This allowed detailed insight into and understanding of the individual firm level view of its strategies and relationships with others at the various industry levels - firm, industry and environment. Secondly, the data were analysed across case which enabled interim conclusions to be drawn on the research questions and a model to be inductively developed for testing in Stage 2. This enabled the development of a two-fold perspective. One, which aggregated the case data in an emergent multi-level view of the research context as whole (firm, industry and environment) and a second which permitted some theoretical explanation of similarities, patterns, differences and outliers in terms of relationships and strategies within it.

4.2 Exploratory Stage: Within Case Data

In setting out the findings for the case companies, each was given a number as shown in Table 3.7 to identify it and these were allocated and are set out in the order in which they were interviewed, and in which the understanding of the industry and its key strategies and relationships developed.

4.2.1 Data Overview

For each company individual case analyses and displays were produced as set out in Table 4.1. One of the overall aims of the research was to understand and explain relationships and strategy within a specific setting. Thus an understanding of the industry, its networks and relationships, was built up on a case by case basis, then patterns and clusters of meaning were analysed by aggregating these into an industry level picture. For each case the analysis looked at three areas: an overview of the company, its structure and strategies; then some of the case company's key relationships and their use in strategies were described, based on those identified by individual interviewees; finally, the company's view of the industry was set out. Across case themes are presented and analysed in Section 4.3.

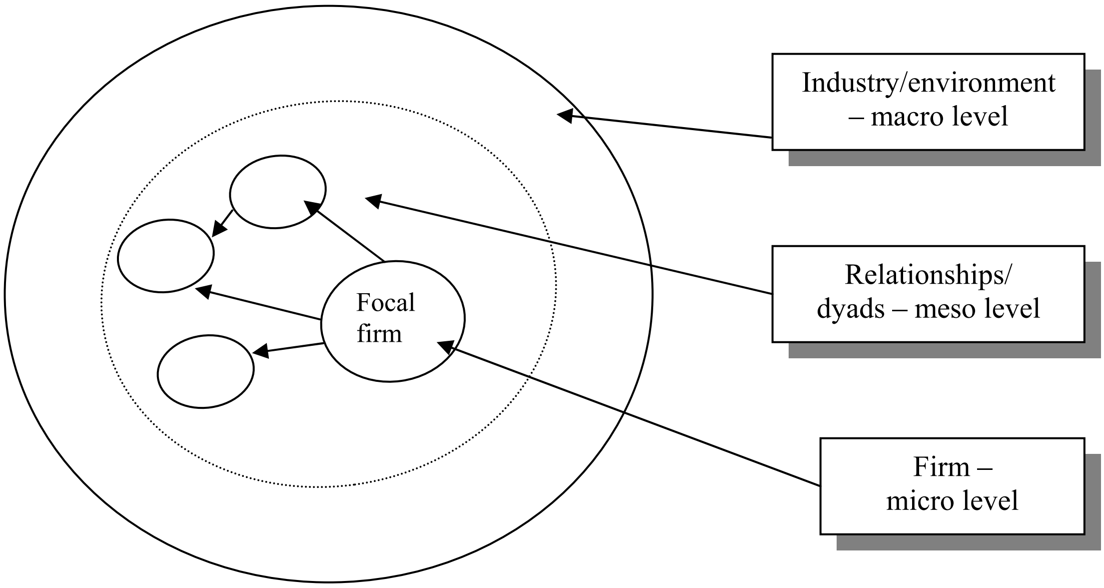
Table 4.1: Data Presentation for Stage 1

Item	Format
1. A descriptive account of: (i) Company structure and strategy; (ii) The firm's key relationships.	Text
2. A simple value system diagram of the firm's key relationships	Mapping
3. A summary of the nature and functions of the firm's relationships: Connected, committed, dependent, value-creating. Direct functions: profit, volume, safeguard. Indirect functions: innovation, market, scout, access.	Matrix
4. A diagram of relationship levels and strategic outcomes: Micro, firm level; meso, relationship level; macro, industry level.	Matrix
5. The company's view of the industry context through stories/narratives from the interview.	Text

Section 4.2 gives a descriptive account of each company using text, matrices and summary diagrams for each. The textual description sets the scene (1). A value system diagram for each case gives a simple but comparative representation of each firm's basic relationships (2). These were compiled from the interviewee's view of her/his firm's crucial relationships and then stylised in order to compare across cases. They present an overview of the case firms' interactions backwards and forwards (vertically) within the value system and also show wine company (horizontal) linkages that some case firms reported. Key relationships and their functions in strategy are then described and summarised in a table display for each case (1 and 3). In order to elucidate the relationships' roles in strategy, the levels of and strategic outcomes from the firm's key relationships were described, and these are set out in a data display table for each firm with the aim of aggregating these to the level of the industry in the across case analysis (4). These were the ways in which each interviewee described her/his views of relationships in terms of content and what they thought these achieved. These features were related to actor bonds, activity links and resource ties and they showed the kinds

and extent of people-focused, resource-focused or activity-focused relationships and interactions and the ways in which these were conducted at three levels of analysis, firm level (micro); relationship or dyad level (meso) and industry/environment (macro) level (see Diagram 4.2).

Diagram 4.2: Stage 1 Levels of strategy and relationship analysis



These tables (4) are used for comparisons across case in Section 4.3. Finally the third section on each case describes views of the industry and environmental factors beyond the firm and its immediate interactions. This informed Sections 4.4 and 4.5. An analysis of the stories or narratives recounted by the interviewees was used for this section (5). These are grouped together in Appendix 4.1. A previous section identified the importance of narratives within interview data both as a content issue and as a technique of analysis. In terms of content, these were used as a means of accessing the experiences of individuals within the industry and company setting and the way in which they understand their wider context. The storied qualities of interview data were important to the analysis because this was how the individual made sense of her/his experience: “stories are the closest we can come to experience as we and others tell of our experience” (Clandinin 1998:58).

A further mapping of the firm’s network of relationships (a simple “stick and blob” diagram) was developed for each case as a summary to take back to the firm after the first interview to set the scene during the second stage of data collection. These proved useful in resituating the interviewee after a time delay and also to discuss where changes had taken place between the two interviews. These were not used in the data analysis, however, as their level of detail would have threatened anonymity, though they are summarised in the value system diagrams. The within case analysis for each company now follows.

4.2.2 Case #2

The company

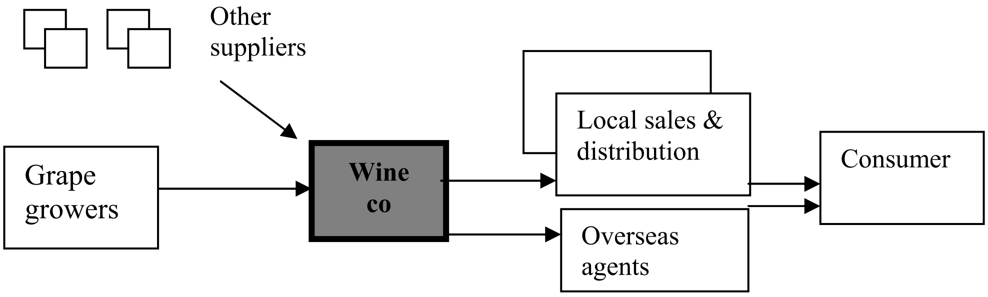
Winery #2 was a long-established, family owned medium-sized company, run by siblings with a board chaired by an independent non-executive director. The company employed around 25 staff at three sites and described itself as team orientated, without a hierarchical system. The organisational structure was thus flat underneath the board. The company was structured into three divisions: grape growing, winemaking and brand owning, which were seen as clearly defined operations and set up as three independent units. The winemaking operation purchased grapes from what the interviewee called “the farming operation”. Once the wine was made all of the next stages - marketing, design, label production, carton production, sales and distribution - were outsourced and done externally by third parties since the winery believed that it should ‘stick to its knitting’.

Company strategy

This firm had built on its historical position as an early entrant in the industry through a strategy of differentiation with a strong focus on international markets based on branding. The winery produced primarily for the international market, and whilst approximately 60% of production was sold domestically, its goal by the year 2000 was that a minimum of 60% would be exported. That was to be achieved by growth of its brands through internally funded expansion, tight control of internal resources and outsourcing everything that wasn’t grape growing and the actual winemaking ie market based capabilities. The company’s ambitious internalisation strategy for grape growing had recently been assisted by the purchase of an additional 225 hectares of land. In contrast to its externalisation strategy for all other activities, its goal in grape growing was to be 85-90% self-sufficient by the year 2000. It currently grew 60% and bought in around 40% of its grapes under contract. The company had two main brands and aimed to produce ‘quality super premium wines’. It marketed a small number of reserves and a few regional varietal wines under one brand and a number of region specific wines under the other brand.

Key Relationships

A value system diagram shows the key relationships for this winery and shows a simple set of interactions across its external activities. An account of the key relationships identified in this case follows it.



Sales and distribution

Winery #2 saw grape growing as a 'farming industry like any horticulturally-based industry'. However, in winemaking, marketing and sales were critical to success. The company had sought ways to become more competitive through new strategies such as going against tradition by outsourcing sales and distribution.

> Traditionally in New Zealand, winemaking companies tend to be responsible themselves for the sale and distribution of their product, and we view that aspect of our business very differently (Winery #2, text unit 76).

Winery #2 had a clear strategy of outsourcing all aspects of its operations except for wine production, thus marketing, sales and distribution were all based on external relationships. Domestic distribution was done through a relationship which had been in place for 5 years and in overseas markets by establishing linkages with large, corporate names. Thus all markets, including the domestic market, were dealt with through agents. Winery #2 had been exporting for over 15 years and in the United Kingdom, where its first overseas relationship was developed, it had used the same company for nearly 10 years. Its commitment to long-term relationships in this area was borne out by the fact it had only had two agents in the United Kingdom. As well as performance, another agent selection criterion included its standing in the local community and the industry, which was more important than personal feelings towards them. These relationships were based on 'a trading arrangement', the key features of which were: a generally binding agreement, a long-term focus, and 3, 6 or 12 months' notice clause. The notice to end the relationship varied in length depending on the country in which the winery was dealing, according to the value of the brand, the relationship in the marketplace and the size of the brand's position in that market. Winery #2 was keenly aware of mutual value:

> And the more valuable you become to your agent, and the more valuable they become to you the longer term that tends to be. But in any event, what we do find is that the more valuable a relationship becomes, and theoretically the balloon becomes longer, in fact there is no point in having a relationship with somebody that you're unhappy with (Winery #2, text units 66-67).

Pragmatic business reality predominated over legal redress or due process of law: during the notice period for ending a relationship an agent or distributor would not put in any effort for the brand. Above all, there was no point in litigating over disagreements, since it was best to change a faulty relationship.

Grape growers

Scepticism about contracts in general was seen in the case of grape growers. The farming division had grape contracts with its growers which, though important and binding (in that they were written down), the winery believed were only as good as the grower's word. Even though the arrangement was a contractual one, Winery #2 did not have faith in its binding nature. There had to be more to the relationship than a legally binding contract. The relationships with the growers were nurtured all through the growing year. This involved sharing expertise and winemaking philosophy. However, three days before picking the grower may say that (s)he was being offered $20 more per tonne elsewhere above the contract price. Pragmatic realities appeared to obtain rather than notions of legality: the wine business depended on the fact that it could only harvest its raw material once a year. Thus Winery #2 aimed to reduce reliance on contract grape growers altogether, primarily because of cost. It was trying to overcome the problem of growers aiming merely to maximise income by rewarding quality[13] over tonnes produced by building relationships with those grape growers where the winery provided viticultural expertise to help them produce higher quality grapes, which earned more. The winery was working with 6 growers in this way, whilst purchasing grapes from around 11 growers in all. Those relationships had been in place for 4 to 5 years, with those in Hawkes Bay a little longer at 6 to 8 years' duration. Relationships with growers were managed from the highest level in the winery, through the managing director.

Glass

The pattern of establishing linkages with key players in any given sector was also seen in the supply of items such as glass. This was an area in which saving 2¢ a unit on 70 thousand units of glass could have a critical effect on financial performance. The glass supplier had recently been in breach of its contract. Winery #2 had a written contract for a set price, for a specified delivery date of two 40-foot containers of glass. But the representative had arrived and said they could not supply the glass because it was having problems with another supplier who had a closer relationship with the glass manufacturer in Italy. The representative knew that he was in breach of contract but there was nothing he could do about it. This was the weakness of paper agreements. The reality of the business relationships was that there was no question of the winery taking the glass supplier to court. This was attributed to commercial

[13] Based on the brix, the sugar content, of the grapes.

reality although the interviewee observed that this was an aspect of the industry which had changed:

> years ago ... when a man's word was as good as his handshake ... you're dreaming if you think that it's like that now (winery #2, text unit 201).

Table 4.2.2.1 summarises Winery #2's relationships, showing only one committed (compulsory) relationship.

Table 4.2.2.1: The nature and functions of Winery #2's relationships

Identity	Number	Nature and function of relationship	Comments
Grape growers	11 of which: 6 Hawkes Bay 5 Marlborough	Long-term contracts *Connected* *Direct: critical resource*	Some 4-5 yrs, others 6-8 yrs; aim is to greatly reduce numbers.
Vine nurseries	Several	Long-term contracts *Connected,* *Direct: ancillary resource*	Various locations.
Other suppliers of corks, tanks, machinery, sprays etc.	Several	Trading arrangements *Connected* *Direct: ancillary resource*	Lack of trust.
ACI Glass, NZ Glass		Long-term contracts *Connected* *Direct: ancillary resource*	Have been let down on deliveries.
Wine Institute		Compulsory membership *Committed, all indirect functions*	Positive benefits, actively involved.
Other wine companies	5+ mentioned	Family connections. *Connected, all indirect and social functions*	Since the birth of the industry.
Allied Liquor		Long-term contract *Connected* *Direct: critical activity*	5 yrs. All sales and distribution are outsourced.
Distribution	Several	Trading arrangements *Connected* *Direct: critical activity*	
Overseas Agents	Several	Trading arrangements *Connected* *Direct: critical activity*	Long-term eg UK 10 yrs.

Winery #2 named many individual people at all levels of the industry – actor bonds were dominant. However, activities and resources were contractual, based on delivery and performance. This reflected the historical involvement of the interviewee and her/his company in the industry combined with a more recent stronger focus on a 'corporate', much more transactional approach to relationships.

Industry context

The interviewee harked back to the early days of the company and historical traditions of the industry, stressing that the company and the industry had been 'this extended family type of thing'. (S)he referred to the Dalmatian families and felt that the industry would maintain the family feeling as long as they were involved though it had become commercialised. Looking at the industry's traditions, Winery #2 had a very clear view of the historical development of the New Zealand wine industry and three key themes emerged. First, the roots of the industry with the 'founding families'. Second, the uniquely co-operative way in which the industry had developed and grown. Third, the way the industry was changing and how wineries such as Winery #2 were responding to these developments. In examining relationships within the industry now, the interviewee went right back to the roots of the industry, pointing to the 'fathers of the industry' from Dalmatia. In surveying its history, (s)he lists the family names and their origins:

> there were other cultures, Lebanese for one with the Corbans, and Chinese with the Chan family from Thames, and German, the Lombadies, in Hawkes Bay (Text unit). From the origins of the industry in the Far North, at Paihia (where James Busby planted the first grapes) to its modern origins in Henderson, the interviewee surveyed the regions, believing that for: "the future, we have to look to the regions, and the relationships with those regions, and the brands within them (Winery #2, text unit 136).

Changes in relationships in the industry were expressed by the interviewee who considered that the key issue for survival and success within the new industry environment was how older wineries were to keep their competitive edge, and overcome what (s)he described as the burden to the company of a commitment to a 'different mentality'. Winery #2 had had to decide whether its future was as a world competitor within the industry, or whether to retain a lifestyle, and had made a clear decision to 'run for the international market', and to change its thinking accordingly. The mid 1980s had been a difficult time for the industry and financial instability had precipitated change and a revitalisation at Winery #2. It still had traditional ties with colleagues in the industry, but its mentality was now very different. These changes had involved opening up to graduates, having access to skilled people, changing the structure of the company and bringing in expert help whilst retaining the recognition that 'nobody knows the business as well as we do'

Looking at how industry relationships were changing over time, Winery #2 considered it inevitable that there would be more competition, of a more aggressive nature, because the stakes were getting bigger. The closeness of the founding families continued during the growth of the New Zealand industry, inter-marrying and maintaining personal ties and relationships. The interviewee mentioned many names of these families, saying that the personal ties and relationships remained constant, since when talking with colleague winemakers and proprietors, they were also talking to people with whom they had close ties. These close ties were contrasted with the present day:

> Now there are no Ukiches and there are no Corbans, we are dealing with well educated, upwardly mobile people who have chosen an industry and have gone into that industry with a goal, and I guess one could say that the goal is success for themselves .... In our cases, whether you're talking to the Ivan and Michael Selaks, the Nick and Mark Nobilos, the Bill and the Ross Spences from Matua, George

> Fistonich, Jim Delegat, Rose Delegat, Peter or Joe Babich, what you are talking to are people who are committed for their life, and it is entirely a different mentality (Winery 32, text unit 141).

The Wine Institute

Winery #2 saw the Wine Institute as a key factor in the progress of the New Zealand wine industry. The winery was positive about the Institute, and accepted membership as a cost of business. It saw the Institute as an essential body which kept the industry moving forwards together, providing cohesion, and addressing fundamental issues domestically, at local government level or international level. The interviewee saw it as informed, independent and neutral. In sum, the interviewee could not imagine where the New Zealand industry would have been without it. This firm's stories may be summarised as focusing historically, learning the hard way from experience in the industry and consciously setting a change pathway:

1. The Founding Families

The interviewee talked about the industry being based on a peasant farming foundation, and provided a social overview of the industry's development. Thus, whilst it was mindful of tradition and the roots of the industry, in business terms Winery #2 did not 'dwell in the past', albeit that there was a certain emotional nostalgia for some of its social aspects. Winery #2 had a strong view about 'the older and … traditional family brands'.

2. Industry co-operation

The interviewee observed that: 'there's no industry like the wine industry for cohesion and co-operation' but admitted that this was breaking down and it was a very different industry today.

3. Company change

When Winery #2 dealt with 'colleague winemakers, and proprietors, we are also talking to people with whom we have, personal ties and relationships'. (S)he believed there was a strong dichotomy between the winery which developed from the older, traditional route, which entailed a lifestyle and a commitment to the industry, as against other attitudes which were required 'in this world environment, when you're on the world stage'. The key decision for this winery was whether to grow and develop into the international market. The winery had gone through enormous upheavals as a result of industry change. Table 4.2.2.2 gives an overview of the levels of and outcomes from Winery #2's relationships.

Table 4.2.2.2: Relationship levels and outcomes for Winery #2

Level	Actor Bonds (people)	Activity Links (value chain)	Resource Ties (resources)
Micro (firm)	Siblings and Non-Executive Director on Board.	Outsourced sales, marketing and distribution based on contracts.	- Some grape purchase but internalisation goal. - Bought out one external shareholder.
Strategic outcomes: Strong internally funded growth, clear focus on core activities.			
Meso (relationships/ dyads)	- Strong affinity with industry colleagues with family and historical ties. - Reps from glass and tank companies	Trading arrangements with agents based purely on delivery & performance.	- No close ties for resources - No faith in contracts.
Strategic outcomes: Little reliance on relationships except for marketing and specific outsourcing.			
Macro (industry/ environment)	- The Founding Families of the industry, many named. - Other current key players named, ones with a "lifetime commitment" to the industry, all in the local region.	Informal co-operation in many areas on which growth of the industry based.	Wine Institute
Strategic outcomes: Collective benefits, growth of the industry, shared technical and market learning.			

Case #2 Summary

In summary, this firm had a pragmatic approach to relationships and an avoidance of growers through an internalisation strategy, with a mix of long-term contracts and trading arrangements ie short-term transactions. Export market relationships were, however, long-term and committed. The interviewee clearly understood the role of social relationships in the industry and although recognising that they had been critical to the industry's development, the firm had made a clear decision to operate in other ways. There was scepticism about contracts and formal arrangements but leaving matters to chance or trust was even less attractive. Overall, the approach to relationships made the distinction between old, family based traditional ties, a way in which it no longer did business, and radical change to a newer, transactional, pragmatic approach to business interactions.

4.2.3 Case #3

The company

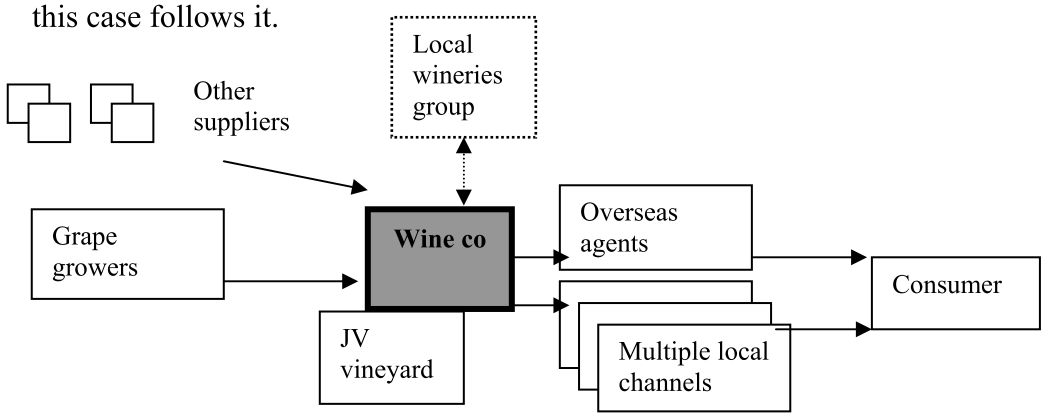
Winery #3 was a long-established medium-sized family owned wine company. The company was owned, controlled and run by siblings and the next generation of the family were planning to become involved in the business. Whilst the key role of production manager was undertaken by a senior family member, the winery had employed trained oenologists since the mid 1980s.

Company strategy

This firm had also built on its historical position as an early entrant in the industry with a strategy of overall differentiation with a wide product range strongly focusing on quality and competitively priced/high value, “damn good wine at a damn good price” (Winery #3, text unit 194). It marketed a range of wines in the premium and super premium areas, covering the value end, a number of premium ‘unique’ wines, a few single vineyard wines and a small number of its top of the range signature brand. Strategy has been based on internal growth but with one vineyard joint venture. The winery currently bought in about 60% of its grapes and grew the rest in its own vineyards, one of which was a joint venture. The company’s goal was to have fewer growers growing more.

Key Relationships

A value system diagram shows the key relationships for this winery and indicates a simple set of interactions across its external activities. An account of the key relationships identified in this case follows it.



Grape Growers

The interviewee asserted that most New Zealand wine companies bought grapes as well as having some growing interest of their own. Winery #3 believed that ‘you strike up a relationship with a grower’. A key factor was to make the distinction between a ‘good grower’, one who was interested in the end product, and a commodity seller, who was only interested in getting ‘his product to the gate and an account to you as quick as possible’. The relationship with the growers was seen as critical in that they must be prepared to put in the extra effort to ensure that the buyer - the winery - got the best quality grapes. The winery saw the quality of the wine issue as directly related to the size of the firm because small size meant that the advertising budget was constrained and the wine had to sell on its reputation for quality, and the company’s reputation for service. The firm’s strategy was to meet with growers, bring them to the winery, and explain to them what was going on in the markets, particularly in terms of price.

> to bring them in quite close to us, so that they're aware of what's got to happen...we've all got to make money, so having said that, the problem of meeting the price points has to be shared (Winery #3, text unit 126).

Winery #3 had relationships with around 10 growers but only one grower was on a contract. This grower was at the highest quality level and the winery had poured a lot of money into it and if Winery #3 ended the relationship the grower would own the wine's brand name. The two parties owned the brand name together, and the winery paid a royalty per carton for its use. Having made that arrangement it wanted to bind the grower by contract. All the other growers had agreements based on a handshake.

The Wine Institute

The interviewee had spent nearly 40 years of her/his working life on what (s)he referred to as wine industry politics, in the Wine Institute, and before that with the Viticultural Association. (S)he devoted 2 to 3 days a week to it at one stage and was an executive committee member for some 17 or 18 years. The Wine Institute had been a success story in the way it was structured but it had been very difficult to establish. At the time, the older members of the industry were strong-minded individuals, particularly tough around the conference table. The wine industry had been receiving instructions from the Government that it had to organise so that it would have only one industry body to listen to instead of three or four. Negotiations had been very heated, with no compromise positions possible. So a group of five or six of the 'next generation' (including the interviewee) got together and came up with a proposal. This group advanced the plans and the older members eventually saw that the majority view (there were threats that if the older members did not begin to work on a set of proposals then they would be left out) was that the industry should get together. The interviewee believed that it had been successful because it was a compulsory body, carefully structuring the involvement of small and large wineries. Benefits for Winery #3 from Wine Institute membership and involvement included:

- Political unity meant one single direction for the industry;
- Addressing problems with liquor laws and food and drug regulations;
- Dealing with inappropriate practice in the industry ("skulduggery") which had a bearing on wine quality.

Other suppliers

There had been at least six suppliers to the industry of barrels, corks and filter mats and there was now one major supplier of winemakers' supplies, Carter and Associates. The company gave very good service and offered competitive prices and had thus gained 80% of the industry business. Winery #3 purchased its bottles from one supplier, though the interviewee described the winery as being 'held to ransom' by this monopoly company until deregulation and the lower value of the New Zealand dollar had lowered its prices. In addition to these the winery was now able to purchase imported bottles through another supplier.

Distribution

The winery used several domestic distributors, New Zealand Wines and Spirits, Allied Liquor, and two or three of the supermarket chains. In terms of overseas sales, the winery had one key agent in each market and relied on each to produce a marketing plan for their territory. The winery tried to strike up sole agencies in export markets wherever possible so that its wines did not compete directly with other New Zealand wines. Table 4.2.3.1 summarises Winery #3's relationships and shows a preponderance of committed relationships, with dependence on grape growers.

Table 4.2.3.1: The nature and functions of Winery #3's relationships

Identity	Number	Nature and function of relationship	Comments
Grape growers	10	1 on contract, rest on handshake. *Dependent/Value-creating*	Aim for fewer but larger.
Packaging	1	Long-term supply. *Committed* *Direct: ancillary resource*	Large, reliable.
Glass suppliers	2	Long-term supply arrangements. *Connected.* *Direct: ancillary resource*	No longer monopoly.
John Carter - corks, tanks, machinery, sprays etc.	1	Long-term supply. *Committed* *Direct: ancillary resource*	Very good service and price.
Wine Institute	1	Compulsory *Committed, all indirect functions*	Founder member and key supporter.
Other wine companies	Many	1960s group and beyond *Committed, all indirect and social functions*	Responsible for quality development in industry.
Allied Liquor	1	Long-term. *Committed* *Direct: critical activity*	
NZ Wines & Spirits	1	Long-term. *Committed* *Direct: critical activity*	
Agents	Various	Long-term. *Committed* *Direct: critical activity*	Prefer to be the sole NZ wine client.

Industry context

The interviewee was the relationship builder *par excellence*. (S)he had experience of nurturing often difficult relationships across the industry, whether vertical (supply or purchase) or horizontal (with other wineries) and was a firm believer in co-operation and information sharing. In terms of technical cooperation, the Winery #3 interviewee believed that the quality of its wines had 'soared' as a result of its involvement in a small informal grouping of wineries in its immediate area which met to exchange new ideas during the 1960s. The grouping continued to meet regularly for some 10 to 15 years. There were a number of spin-offs from the grouping, including field days, the involvement of vineyards as well as wineries, and broad-based discussions about such issues as wine types, grape varieties and the results given by different vine clones. The main knowledge exchange function of the grouping was eventually overtaken as the wineries benefited from more academically trained staff, as well as sharing the results of experimentation.

The interviewee believed that some 50 wineries were not in existence now that had once been licensed winemakers in the area local to Winery #3 in 1960. Some of the causes of failure were attributed to the sale of land as a result of the expansion of the nearby city by those who had 'cashed their land in and didn't see a future in (the industry)'. Others perhaps did not have a talent for winemaking. The informal grouping had continued on a reduced basis:

> there's still a linkage there but it's probably on a basis like you and I are talking now, probably just let's go and have dinner, or whatever, and there's still this sharing (Winery #3, text unit 47).

In term of exogenous influences, the Winery #3 interviewee talked about the 'Porter project' of the early 1990s which had recommended active government encouragement of industry groupings and co-operation to develop industries and markets for New Zealand. The 1960s group of young winemakers had identified with these strategies, the interviewee believed. There was reference to:

> the cloning of the wineries in West Auckland - be it Waimauku, Kumeu, Huapai, Henderson area - there was this whole nucleus of people here (Winery #3, text unit 21).

The interviewee traced the development of the industry through the following stages:

- No academic training, just traditional skills;
- Literature started to come in from the USA around 1952 or 1954, with a book by Amerine, which provided some technical data to the industry;
- A group started to get together once a fortnight for winetastings
- The group involved: Joe Babich, Joe Corban, Nick Nobilo, Ross Spence, George Fistonich, and the Selaks.

The fortnightly meetings and sharing went on for 10 years and the interviewee spoke enthusiastically of sharing ideas. The group learned from one another in turn: there was a free flow of information backwards and forwards. The interviewee believed that this was probably the biggest learning curve that the industry experienced, because the next generation began going to university for training, particularly Roseworthy College, in Australia.

> that generation which suddenly helped our wine quality start to soar upwards, they did that all internally, by working with one another in these winetastings. And sharing of knowledge (Winery #3, text unit 25).

As a result of these initiatives and changes, the profile of New Zealand wine started to become highly successful, with a growing presence at international shows. At one recent London Wine Trade Fair, the interviewee was asked by people, "How has New Zealand established this high a profile in such a short time?" At the Vinexpo in Bordeaux, perhaps the biggest trade fair in the world for wine, the interviewee was repeatedly asked by winemakers, "What are you doing in New Zealand?". (S)he believed that this had flowed from the work of the Wine Institute, that the management of the industry was very focused, and the administration of the industry was right. In terms of this firm's stories, again these were based on the industry's historical development with a strong focus on learning and the dynamics of growth and these may be summarised as:

1. The 1960s Group

This outlined an important stage in the development of the New Zealand wine industry by one of the key players. This information sharing and collective development was critical to the industry's more recent growth and underlined the importance of informal co-operation and social groupings in the industry's evolution.

2. Wine industry politics

This was another key phase in the industry's progress and again the interviewee offered the unique insight of someone who was there. The enthusiasm and excitement of the time were still present in the narratives.

3. The hard business lesson

The interviewee recounted the experiences of someone in business when (s)he was a child which related to over-reliance on one large customer and the need to have a portfolio of products. The portfolio approach was also used by Winery #3. Table 4.2.3.2 gives an overview of the levels of and outcomes from Winery #3's relationships.

Table 4.2.3.2: Relationship levels and outcomes for Winery #3

Level	**Actor Bonds (people)**	**Activity Links (value chain)**	**Resource Ties (resources)**
Micro (firm)	- Siblings who own and control plus their children/the next generation. - Education and skills levels.	- Portfolio approach to channels. - One vineyard JV (60% shareholding)	Strong focus on grape growers and quality.
Strategic outcomes: Security of grape supply, consistent quality and market position plus firm independence through leverage.			
Meso (relationships/ dyads)	Many people named in companies.	- Close links with multiple channels. - Long-term relationships with other suppliers.	- Handshake, mutual trust, understanding and 'bringing them close to you'. - Monopolies broken but still use them.
Strategic outcomes: Focus on fewer, key long-term suppliers.			
Macro	- Growth of the industry	Informal co-operation in	- Foundation of Wine

(industry/ environment)	through interaction of one key informal social group. - Many people named. - Authors and experts named.	joint development of technical methods and skills.	Institute and benefits to industry. - Information sharing, quality standards.
Strategic outcomes: Collective benefits, growth of the industry and its quality, shared technical and market learning.			

Case #3 Summary

Winery #3 had a traditional industry approach to relationships in its value system. It bought grapes from growers and dealt with overseas agents and multiple local domestic channels as shown above. Though this was quite typical of other wineries in this size category, the interviewee however was the relationship builder *par excellence* at both the dyadic level and at the level of national industry development. There was a focus on quality, international markets and growth, but also a sense of continuity in the business and its relationships within its strategy.

4.2.4 Case #4

The company

Winery #4 was also a medium-sized family-owned company controlled and run by siblings since inception in 1974, becoming a partnership in 1976. There was little said about the internal processes of the firm, only as they related to external linkages. The interviewee's son had recently taken over the role of managing direct relationships with grape growers and the interviewee's brother was responsible for the export side of the operations.

Company strategy

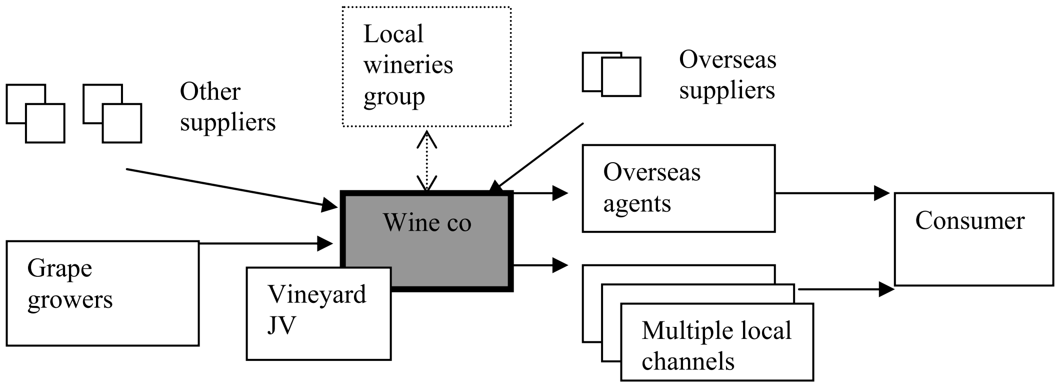
Winery #4 did not have an intentional strategy to grow: 'we're not actively looking to grow, it just seems to happen'. Growth was internally funded though with one shareholder and one vineyard joint venture. The company was currently growing 70% of its own grapes, with the remainder grown by contract growers, or bought on the basis of long-term agreements. Industry economics drove pricing and the firm accepted the need to grow to achieve economies of scale.

> the wine industry has very distinct economic plateaus…so we actually sometimes have to take bigger steps than what we would like, but I think we have to grow, to stay ahead of them, otherwise we're going to fall behind (Winery #4, text unit 32).

This firm's strategies have been based on overall differentiation with a strong quality focus by a known innovator also controlling costs. The firm had a wide range of wines across the super premium and premium categories, including experimental wines, single vineyard wines, a number of 'exceptional quality and value' wines plus four 'uncomplicated' brands.

Key Relationships

A value system diagram for Winery #4 shows standard elements with local co-operation. An account of the key relationships identified in this case follows it.



Grape Growers

The winery had growers with whom it had shaken hands 20 years ago. The company described these as very close relationships, based on trust, which had to be seen in the context of industry lead times. The industry faced long lead times from the time one planted grapes, until they came into full production – perhaps as long as 5 to 7 years. In terms of future relationships, of the 14 growers the company had, more than it would like, it would probably keep around that number. The interviewee thought, however, that a lot of the smaller ones would go under due to a lack of price competitiveness and that there would be concentration among growers. The critical issue was one of scale economies:

> Our very good growers, we're prompting them to expand, and some of our smaller growers, we're-saying to them - your economy of scale isn't in line with what we require. So you've either got to get a lot bigger, or alternatively sell to a small person that will pay you more and a lot of boutiques will actually get more for their wine (Winery #4, text unit 26).

Thus as size was an issue for the wineries, it also became one for their critical suppliers, the grape growers. Trust in the relationship was defined as mutual satisfaction and agreement, 'They get used to us, and we learn about them and what they want'. Price was very important: 'We give them a reasonable price that they can live with at the end of the day'.

Winery #4 had experienced contracts from which the grower had withdrawn after 18 months or 2 years and the winery had done the same, 'because you would never find a satisfactory contract with some people'. The winery knew what it was looking for: quality, long-term supply, and lastly, price. The economic goal was on a human level, however:

> we have to be aware, at the end of the day, if the grower can't make a good living, he's not going to keep growing grapes, so we have to ensure that he gets a living that he's satisfied with (Winery #4, text unit 23).

This contrasted sharply with the historically bad grower relations within the industry:

> We'd have these growers down one side of the table, and the Wine Institute people down the other, and, I can tell you, it was just awful. It created bad feeling- amongst growers and winemakers, and it was horrible. You see the worst in people, it was like a union negotiation: vindictive and horrible (Winery #4, text unit 129).

In terms of managing grower relationships, Winery #4 visited them regularly and invited them to winetastings, so that growers could taste the wines made from their grapes, and appreciate the effects of viticultural techniques on the quality of the final product. Winery #4 conducted a good deal of trial work regarding such techniques as irrigation, spray trials and canopy management:

> We lay down all those trials; we put them down on people's properties, to ensure that everyone understands how they're working. (Winery #4, text unit 44)

The criticality of this close working relationship was seen in the area of quality:

> We're having to work very, very hard all the time to ensure that our quality is of a very high standard, and we keep growing that standard, to make sure that we are keeping ahead of the world trends. So, that's- and we would regularly visit those growers during the growing period, once every 2 to 3 weeks (Winery #4, text unit 35).

Agents/Distributors

The interviewee made no distinction between distributors in the local or overseas market and agents in overseas markets. The relationships were handled by regular visits to the larger ones and attending promotions: they required 'a lot of back up'. The firm had a clear strategy of not selling to restaurants because they did not have the infrastructure to service them although they would take orders from them and put those through a wholesale merchant. All of the decision-making in these areas was about price and customer requirements. In terms of local distribution Winery #4 felt that wholesalers were a 'dying breed' and much discussion was centred on the dominant role of supermarkets.

Glass

This was a key supplier relationship but within the industry context a monopoly glass supplier to the entire industry had kept prices high. Winery #4 claimed that it was regarded as a 'one of their more difficult customers'. This was primarily because the interviewee resented the lack of negotiation by the glass supplier, particularly on discounts for large purchasers. Winery #4 now imported bottles directly and had taken great delight in not placing an order with the former monopolist, which had since offered discounts that might entice Winery #4 back but 'it's put us in a position where a monopoly no longer can dictate to us'. Industry co-operation did not have a strong history in this area. The Wine Institute had tried collective negotiation with industry suppliers but the problem had been individual companies, especially the very large and the very small, putting their own discounts first. Large companies had received volume discounts and small companies had not been paying enough.

Packaging suppliers

This was another critical input and the interviewee claimed that packaging costs in New Zealand were high in comparison to anywhere else in the world. Historically, again, the interviewee asserted that the product was kept artificially overpriced due to market controls such as tariffs and monopolistic behaviour. The company now imported directly from overseas at a fraction of the price offered by the local company. Importing began purely by chance, when a social contact told the interviewee about how he was importing directly and for what price. However, the interviewee talked of people being:

> afraid to start importing...because you can very quickly be ostracised and put in to a corner ... that's why it's done very underhandedly and very quietly (Winery #4, text unit 137).

Winery #4 talked of the very real risk in this situation of needing the local company again in the future and being 'held to ransom' by the local supplier. Table 4.2.4.1 summarises Winery #4's relationships, showing a mix of committed and connected relationships, with a dependent set of relationships with grape growers.

Table 4.2.4.1 The nature and functions of Winery #4's relationships

Identity	Number	Nature and function of relationship	Comments
Grape growers	14	Handshake *Dependent/Value-creating* *Direct: critical resource*	Would like fewer.
Packaging	Several	*Connected* *Direct: ancillary resource*	Monopoly power gone.
Glass	Several	Own importing *Connected* *Direct: ancillary resource*	Monopoly power gone.
Other suppliers - corks, tanks, machinery, sprays etc.	Various	*Connected* *Direct: ancillary resource*	Little or no mention of these.
Wine Institute	1	Compulsory membership *Committed, all indirect functions*	Size issues among the membership.
Other wine companies	Many	Informal *Committed, all indirect and social functions*	Co-operation and information sharing.
Distribution companies and Agents	Many	Long-term *Committed* *Direct: critical activity*	Personal contacts.

Industry context

The collective growth of the industry had been based on co-operation and sharing of information, which remained, though co-operation only went up to a point:

> And they'll offer all the help that you require. And we are very generous with our assistance to each other like that. But, when we hit that retail shelf, look out. There's no assistance there, it's dog-eat-dog in that area. But production-wise and I think everyone sees that if bad wine goes onto the market, it's a reflection on New Zealand wine, not just the person who produced it, so we try to ensure that New Zealand moves forward together, rather than bit by bit (Winery #4, text units 150-152).

The company shared the results of its annual experimental micro-vinifications with other wineries in its local area. The research process and sharing the results were important to the company and the amount the company spent on research each year was high for a small operation. The interviewee felt that it was, however, helpful and 'all a learning process'. To share the results of experimentation a group of 25 to 30 people would gather, including wineries, nursery companies and grape growers.

> They all look at the wines and of course they're welcome to the information if it's going to help us, and if it's going to help the industry it'll help us ... people are very selfish about keeping that information to themselves, which may help them, but, if the industry can be helped, if New Zealand as an industry can get up and going in a lot better way we'll all benefit from it. And that's the way we see it. We're very free with our information here, we don't believe in keeping everything to ourselves (Winery #4, text unit 56).

Although the interviewee claimed that anyone who wanted to come would not be excluded, there were limits to this sharing process. The major limitation was geographical: only those who were involved in the specifically defined region in which Winery #4 had its main premises, and historic roots, would be involved.

The competitiveness of the New Zealand wine industry was comparable to other 'New World' wine producers, the Winery #4 interviewee felt "right up to the stage of pre-bottling". Thus (s)he felt that New Zealand costs were not added at the growing end of the value system but at the production and distribution end. The interviewee asserted that the New Zealand wine industry had very distinct economic plateaux and that to grow, the company had found that it sometimes had to take bigger steps than it would have liked. Winery #4 believed that it had to grow to stay ahead of its competitors in the New Zealand wine industry and to retain its position in the industry. Size was an important factor in gaining and retaining recognition and ensuring that:

> We're important enough in the market for people to see as being a long-term player, so that we get shelf-space (Winery #4, text unit 32).

The forum for competition was the retail space. However, Winery #4 also saw the industry as one which was primary produce based. This was characterised by unpredictability, with the industry moving erratically from undersupply to oversupply: an industry with no stability. The firm's role in the industry has been one of innovation in wine styles and its approach to efficient purchasing. Its stories may be summarised as:

1. The wine-tasting group

This group was firmly part of the tradition of the co-operative relationship processes of the industry and in which this firm was a key player. This story was about experimentation, innovation and sharing results openly.

2. *The glass monopoly*

The firm was instrumental in changing one of the more negative features of the traditional industry. This referred to the regulated economy in which the industry had grown and opportunities that were pursued on an individual basis. This winery saw itself as a rule-breaking or rule-making player.

3. *Adventurous packaging imports*

This was a similar deregulation story but discussion became sinister: there was a risk of ostracism and of retaliation which one needed to avoid in a small market. This showed the interviewee's risk taking, entrepreneurial behaviour. Table 4.2.4.2 gives an overview of the levels of and outcomes from Winery #4's relationships.

Table 4.2.4.2 Relationship levels and outcomes for Winery #4

Level	Actor Bonds (people)	Activity Links (value chain)	Resource Ties (resources)
Micro (firm)	Sibling and on mentioned.	- Strong effort to break supply monopolies - One JV vineyard - Use relationships in channels.	Working with growers in long-term trust-based relationships.
Strategic outcomes: Security and quality of supply but controlling cost efficiency.			
Meso (relationships/ dyads)	Friends and colleagues in local wine companies.	- Information sharing. - Innovation through R & D - Close relations with agents and distributors. - Clear decisions about not using certain channels.	Handshake with grape growers and close working relationships, sharing info and advising.
Strategic outcomes: Maintain industry development and market position to meet international competition.			
Macro (industry/ environment)	Growth of industry involved named people.	Technical innovations through informal co-operation.	Institute role, both positive and negative in past.
Strategic outcomes: Collective benefits, growth of the industry and its quality, shared technical and market learning.			

Case #4 Summary

In summary, Winery #4 was very firmly relationship based at the industry and grower levels, having been a key player in building the modern industry and driving change in industry structures and processes but still retaining some of the innovative techniques which had served it well. The overall importance of this case is the combination of the experience of the growth and change in the industry, and its strong continuing relational approach to doing business in the industry.

4.2.5 Case #5

The company

Case #5 was an older privately-owned medium-sized winery which had been in operation since 1937. Internally, there was a division of labour between the two sibling owners, the third generation of the family to run the winery, with one looking after agents and distributors and the other looking after growers and other suppliers. Both were involved with relations with other wineries especially one local one.

Company strategy

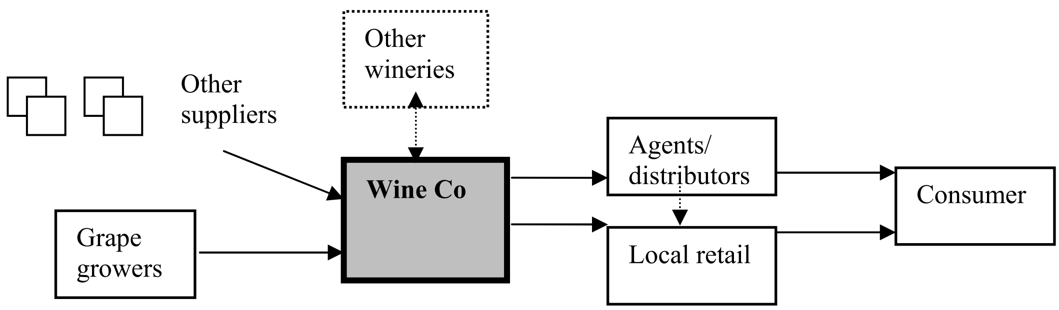
This firm's now largely follower strategies had been built on its historical reputation as an early entrant in the industry with an overall strategy of differentiation, though with little apparent uniqueness except for its long-standing position based on the industry's international profile of quality and value at specific prices point in international markets. It marketed products across a range of top level, mid range, 'for current drinking' and some traditional styles. The company had moved away from traditional production of fortified wine in the 1980s and has since had a solid mid-range performance. There was emphasis on the low power of a smaller firm, with no clout in relations with larger firms but with the desire and flexibility to use new channels and systems.

Key Relationships

Winery #5's key relationships are expressed in the following value system diagram, which is very similar to others in its size category. An account of the key relationships identified in this case follows it.

Grape growers

The winery had long-term relationships with half a dozen or so grape growers, though no formal contracts.



Traditional social factors were very important in this firm's relationships with its grape growers,

> maybe because we're a family, we tend to get a bit involved a little bit more than just a business level, it starts to become friends, I suppose, on a friendship basis, but that's the sort of way that our business has always been developed as well, so we tend to look for more of those (Winery #5, text unit 23).

The winery also bought grapes on a casual basis from other growers to fill gaps but these were not long-term arrangements. The interviewee made a clear distinction between grape suppliers and others. Whereas the grape suppliers became friends, suppliers of glass, bottles, capsules etc did not:

> Well we tend to maintain good relationships with them, but mainly more of a business relationship, there are one or two that we have a bit more of a relationship with, but on the whole most of suppliers in most regions are more business orientated. (Winery #5, text unit 104)

One very close relationship had developed with a grower whose name appeared on a wine label in recognition of the fact that the grapes were sourced solely from that vineyard.

Distribution

The firm had a growing emphasis on building relationships in channels:

> the way we've been looking at it is that if we are going to deal with them we might as well deal with them to the maximum and cut our distribution down and use their distribution. And the same with the supermarkets, we're looking at doing more and more with the supermarkets, they own the distribution chain, so we want to make use of distribution chains (Winery #5, text unit 44).

The company was investing in its relationships with distribution companies whilst maintaining direct relationships with major retail outlets, seeing these as crucial long-term relationships. There were some commonalities in relations with grape growing and distributors: the closeness in terms of operating a good relationship with these two were similar. The interviewee saw more mutual reliance here than when dealing with, say, a glass company or packaging supplier:

> in those sorts of supplies you tend to be more a business customer to them. And you're dealing with reps or account managers and things like this, so the same association's not there (Winery #5, text unit 106).

With distributors the relationships were based much more on mutual need, and because these relations happened within the hospitality industry they were perhaps more sociable than in other industries. There was less discussion about relationship building with overseas agents other than on the process of negotiating where the winery's products would be placed in the market concerned, and the need to keep in contact and visit the market once a year. Table 4.2.5.1 summarises Winery #5's relationships, and shows a mix of connected, committed and one dependent set of relationships with grape growers.

Table 4.2.5.1 The nature and functions of Winery #5's relationships

Identity	Number	Nature and function of relationship	Comments
Grape growers	6	Long-term, informal *Dependent/Value-creating* *Direct: critical resource*	One grower had name on wine label.
Other suppliers – glass, corks, tanks, machinery, sprays etc	Several?	*Connected* *Direct: ancillary resource*	Little or no mention of these.
Wine Institute	1	Compulsory membership *Committed, all indirect functions*	
Other wine companies	Various	Local, informal *Connected, all indirect and social functions*	Assistance and information sharing, social.
Allied Liquor	1	Long-term *Committed* *Direct: critical activity*	Focus of current effort.
Distribution & retail companies	Several	Long-term *Committed* *Direct: critical activity*	Focus of current effort, aim to use more.
Agents	Several	Long-term *Committed* *Direct: critical activity*	Focus of current effort.

Industry context

Winery #5 believed that one of the key factors behind the success of the New Zealand wine industry was the fact that the majority of the wineries helped and co-operated with each other. The interviewee emphasised that it was possible to support other wineries and share information without giving up one's marketing and sales advantage, strongly emphasising the social aspects of the wine industry. There was a lot of socialising and attending industry functions which developed as informal *fora*. As a long established family firm, the interviewee emphasised historic social and familial links, but Winery #5 felt that newer smaller entrants to the industry would not benefit from the co-operation and information sharing which still went on based on long-term social links.

> And the other thing is because its also sort of being viewed as a long-term industry by the people involved in it, like people of Dalmatian extraction, from Croatia, or what was Yugoslavia, and they're there for the long haul, so not the easy quick solutions, and things like that, also, because a lot of them are related to someone like they knew them on a social level, personal level, anyway, so there's automatically a lot of trading information, a lot of help (Winery #5, Text unit 113).

(S)he considered that there were a small number of firms who had traditionally not co-operated, this was based on people's "attitudes". The interviewee strongly stressed the hospitality aspect (and consequently the social nature) of the wine industry. The stories in this interview covered:

1. Grape growers who 'play fair'

The interviewee stressed the firm's social, friendly long-term relationships with grape growers. Some did not play fair with wineries in terms of price and delivery. The ones who did treat wineries fairly benefited from closer relationships, were 'looked after' and would achieve price stability.

2. Informality and sociability

Both the nature of co-operation in the industry and a characteristic of the hospitality industry was its social aspects. These were strongly emphasised in the relationship with grape growers and as the relationship with distributors was becoming crucial there was a desire to bring those qualities to these relationships too.

3. Non-joiners or us and them

Strong references were made to another local wine family in particular and to the ethnic and family ties of the early New Zealand wine companies. Whilst the benefits in terms of information sharing and learning may be closed to newcomers, there was reference to one or two companies who were not co-operative and allusion was made to their 'attitude' and to the fact that help and support must be reciprocated. Table 4.2.5.2 gives an overview of the levels of and outcomes from Winery 5's relationships.

Table 4.2.5.2 Relationship levels and outcomes for Winery #5

Level	**Actor Bonds (people)**	**Activity Links (value chain)**	**Resource Ties (resources)**
Micro (firm)	Strategy of personal among sibling owners control.	- Partial control of distribution and moves towards using large distributors, and cost - cutting. - Other supplies more 'business' oriented.	- Outsource grape supply. - Maintain internal sales and marketing advantage.
Strategic outcomes: Intermediation in channels. Focus on cost effectiveness with independence and resource leverage.			
Meso (relationships/ dyads)	Ethnic origins and long history in the industry, a family firm, independent company.	-Buy in grapes based on social relationships (little technical exchange). -One grower has name on label, a single vineyard wine. -50/50 direct to retail and use of distributors. -Overseas agents.	-Grape growers: 6 long-term relationships, others providing gap stock come and go. - Verbal contracts on a friendship basis.
Strategic outcomes: Leverage resources, long-term view of industry and own market position.			
Macro (industry/ environment)	- Growth of industry based on co-operation and hospitality characteristics. - Distinction between joiners and non-joiners.	Formal joint marketing (Guild, Tradenz) and informal information sharing.	Information sharing, machine parts loan.
Strategic outcomes: Collective benefits, industry growth, quality, shared technical and market learning.			

Case #5 Summary

In summary this was a long-established company of mid-range performance. Its management style was traditional for the industry, with follower strategies being pursued. There was strong emphasis on industry co-operation, a clear view of 'fair play' and friendship in relationships with growers and an attempt to develop a more aggressive approach to marketing, branding and relationships with agents and distributors. The fact that this firm seemed to be lagging behind, for example its neighbour Winery #2, was perhaps due to the fact that the winery may have been too steeped in the industry’s traditions and was thus rather late in catching up to more recent business approaches.

4.2.6 Case #6

The company

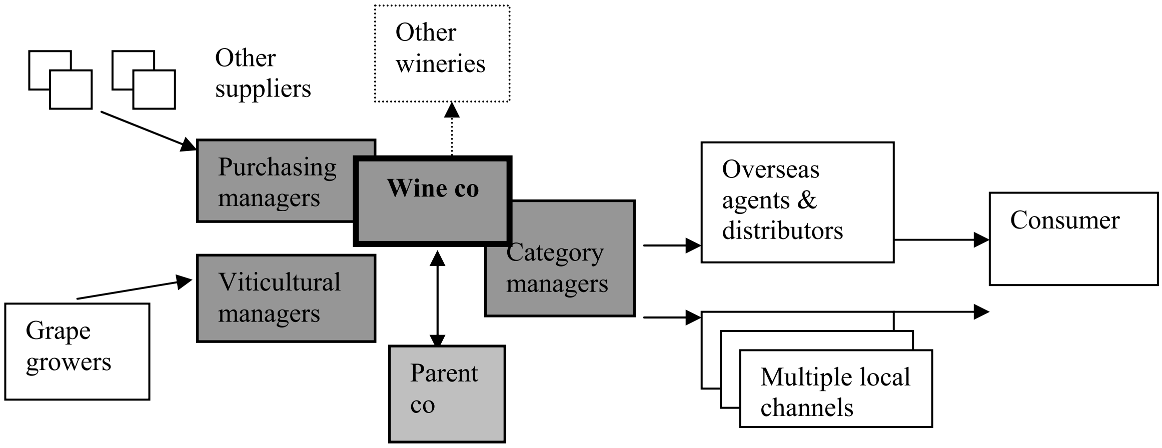
Winery #6 was one of the four largest New Zealand wine companies. The original company had been founded by one of the earliest wine producing families and had grown and developed from this base to become a major producer and international wine exporter. The head office remained near the site of the original family homestead. As a wholly-owned subsidiary of a major international liquor company at the time of the interview, it appeared to have considerable autonomy within the corporate structure, with the CEO attending monthly board meetings involving all subsidiaries but with little interaction outside those meetings.

Company strategy

The company's approach to the market was one of consumer-driven differentiation with a strong focus on a market leadership position but “we want to be the BMW of the wine industry” rather than “the Coca Cola”. It had an overall strategy of growth, which required resources, and a goal of “good quality with good returns”, and the grape supply was critical to both of these. With a strategy of purchasing grapes from contract growers, it was seeking to leverage external resources and not to invest in its own vineyards. Winery #6, however, subsidised increased grape production and the planting of new varietals among its growers. The focus for expansion was in retail, especially supermarket sales and the wine company had an approach which was to: ‘provide them incentives at the end of the exercise which will encourage them to grow our business’.

Key Relationships

A value system diagram shows a large wine company’s interactions, with a clear functional management emphasis. An account of the key relationships identified in this case follows it.



Grape Growers

The interviewee talked at length about the history of and changes in the winery's relationship with its grape growers. (S)he described enormous changes which had come about in the company's relationship with its growers over the past 5 years. The company had long-term contracts with around 120 growers from whom it sourced about 50% of its grapes, the rest coming from company- owned vineyards. The changes had involved altering the 'mentality of the grower and…of the people who work for [Winery #6]' and moving from a situation where relationships were at:

> arm's length and saying well we're just going to continually screw you on price, you just supply us and that's all we're worried about (Winery #6, text unit 12)

to one in which the company worried about the growers' well-being and in which: 'you can actually get on with these people and get a lot more out of them'. The company was moving to:

> take this as an opportunity, to try and develop a relationship with them, so let's stop treating them like we hate them, and let's start treating them on the basis that they're suppliers, they're part of our business, they should know as much as we do, and we should advise them for the future, and we should try and work out a way that we can pay them on a fair, win-win basis in respect to prices (Winery #6, text unit 20).

The company now had one contract type, 3 years with roll-over provisions, instead of 14 different ones, and employed viticultural managers in each growing region to liaise with and advise growers. Bonuses were paid for the best quality grapes, there was a newsletter and gifts and parties at Christmas. The bonus system was worked out on the basis of a pre-harvest inspection, crop management, and grape quality parameters[14]. In a bad vintage year over 50%

[14] Parameters included sugar-brix level, acidity, pH.

might achieve the bonus and in a good year most would achieve payments of between 1 and 12%. Whilst some of the growers had been with the company for 30 years, at worst there might be a 5% attrition rate in any one year which would be remedied by encouraging the better growers to plant more vines. Winery #6 believed it had to advise growers what to grow based on its marketing planning and information as 99% of their grape growers would not drink wine, in fact the interviewee thought that ‘a good percentage of them don't drink at all’. One particular group of growers were multi-crop growers and were completely unaware of marketplace demand trends.

Agents and Distributors

Relationships with agents were somewhat at arm's length. They were seen as the ‘middle man’: a business plan with targets was negotiated and the agents then carried out the plan. Winery #6 felt that agents needed to be persuaded, it requiring 'an inordinate amount of time to convince them that it's the right thing to do'. The company employed a manager who visited the markets regularly and the agents' top 20 clients. Winery #6 made no distinction between managing relationships with export and domestic agents and distributors. The interviewee estimated that there were about 8000 liquor outlets in New Zealand, and that they dealt with around 20 of those that had centralised distribution systems, and everybody else bought through an independent wholesaler.

Other suppliers

Since it was its second major purchase after grapes, Winery #6 took a disciplined approach to its sole glass supplier. They had a 1-year business plan which rolled over into three years and was updated on a quarterly basis. The two parties met socially and had dedicated managers on both sides. The relationship with Winery #6's packaging supplier was much the same as with glass. Again it met regularly with its main supplier and less so with a second smaller supplier. Overall, Winery #6 was positive about relationships with these other suppliers, perhaps from its strong position as a large purchaser:

> I've got to say that most people that supply to us have already recognised that they need to have a relationship that's better than just place the order and pay the bill, and that's it. So good, regular contact, and they know quite a bit about our business and we know quite a bit about theirs (Winery #6, text unit 51).

Table 4.2.6.1 shows an overview of Winery #6’s relationships, showing a mix of connected, committed and dependent relationships. Because of its large size, issues of dependence and commitment were more complex, although it had large buyer power it also needed to make volume purchases in a small market.

Table 4.2.6.1 The nature and functions of Winery #6's relationships

Identity	Number	Nature and function of relationship	Comments
Grape growers	120 across 3 regions	Long-term contracts *Committed/dependent,* *Direct: critical resource*	Viticultural managers in regions, best growers get bonuses.
ACI Glass	1	1 year contract rolled over every 3 *Connected,* *Direct: ancillary resource*	Purchasing managers, quarterly review, social contacts.
Carter Holt Harvey and Kiwi packaging	1 major 1 minor	1 year contract rolled over every 3 *Connected,* *Direct: ancillary resource*	Purchasing managers, half yearly review, social contacts.
Other suppliers - corks, tanks, machinery, sprays	Various	*Connected* *Direct: ancillary resources*	Little or no mention of these.
Wine Institute	1	Compulsory membership *Committed, all indirect functions*	Enforced, no choice.
Other wine companies	4 mentioned	Long-term, friendly industry relations. *Connected, all indirect and social functions*	Much less help, more competitive than in the past.
Distribution including Allied Liquor	20	Business plan *Connected,* *Direct: critical activity*	Account managers visit regularly.
Agents	1 per market	Business plan *Connected,* *Direct: critical activity*	Account managers visit regularly.

Industry context

This interviewee had had long experience in the industry and described how historically the relationship between wineries in general (especially the larger ones) and growers in general had at times been strained. This was due to the cyclical nature of the product and the precarious nature of supply and demand within the industry. One of the key changes at the industry level had been structural. In the past there had been collective negotiations between the growers and the chief executives of the wine companies in open meetings, often followed by arbitration on prices. In 1991 the NZ Commerce Commission had intervened, stating that this collective bargaining amounted to anti-competitive price fixing and wine companies were thus required to negotiate on an individual basis. This had been a turning point in the relationship and for the industry and the current situation was a far cry from the time when the interviewee:

> wouldn't have walked down a back street of Gisborne in the dark five years ago in fear of somebody hitting me over the head (Winery #6, text unit 21).

This interviewee's stories focussed on industry developments:

1. Dark night in Gisborne

This focused on the changes in wine company-grower relationships and highlighted the enormous change the industry had gone through. Relations had been so bad this winemaker had feared for his safety after dark in one major wine-growing region.

2. No more free help

A further change had occurred in the area of co-operation among the wine companies. The traditional co-operation on which the industry had grown up was fast disappearing. Whereas in the past if another wine company had telephoned for a favour - the interviewee mentioned the names of people (s)he would have helped - (s)he would no longer do this. Whereas Winery #6 would have helped out, now it would only help out for a price. The company would no longer give free help to competitors.

3. Equal treatment

This referred to the firm's strategy of putting in place relationship managers and of treating suppliers and buyers/distributors in the same disciplined way. Table 4.2.6.2 gives an overview of the levels of and outcomes from Winery #6's relationships.

Table 4.2.6.2: Relationship levels and outcomes for Winery #6

Level	Actor Bonds (people)	Activity Links (value chain)	Resource Ties (resources)
Micro (firm)	No names mentioned.	Internalise activities and control.	Many grape growers in wine all regions.
Strategic outcomes: Tight control of purchasing and market activities and leverage for grape resources.			
Meso (relationships/ dyads)	- One winemaker named. - Changed industry relations meant (s)he would no longer help.	Managers – account, category, purchasing, to manage relationships, especially domestic and UK channels.	Viticultural managers, quality improvement assistance
Strategic outcomes: Quality of supply, efficiency			
Macro (industry/ environment)	Past process of national negotiations, now individual and friendly.	History of conflict in industry/grower relations – feared for personal safety.	- Wine Institute. - Information and resource sharing has now gone.
Strategic outcomes: Collective benefits, growth of industry, shared technical and market learning			

Case #6 Summary

Winery #6 was a large corporate company which aimed to manage its relationships in a disciplined, commercial manner. The interviewee had a long history in the industry and, whilst describing changes to the past adversarial grape price negotiation process with some relief, the new fiercely competitive environment left no room for sentiment. This standpoint was in contrast to those of the smaller industry players interviewed, but represented the trend in the industry (also identified in case #2 above) away from open co-operation and social links at all levels, to more use of transactional relations.

4.2.7 Case #7

The company

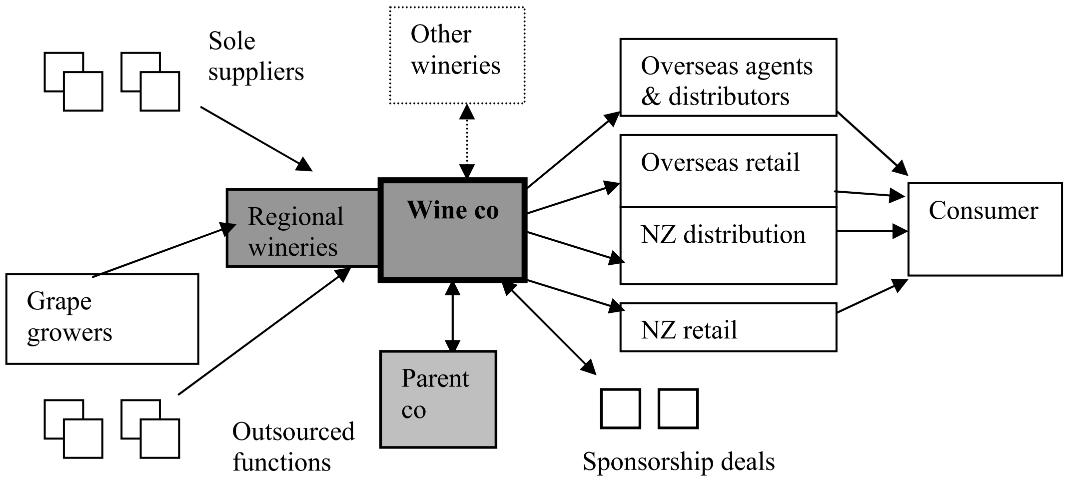
Winery #7 was another of the four largest wine companies in New Zealand, with long historical roots in the industry. At the time of the interview the company was a majority New Zealand-owned public company. The company planned to grow, and expected its partner firms to expand with it and move in the same direction. Strategies were carried out in a face to face way, with the company avoiding bureaucracy, which included written contracts, preferring to rely on 'moral commitment'. The interviewee thought that (s)he might write one memo a month. Bottling, distribution, marketing and sales were centralised at head office, and there were vineyards and production plants in Hawkes Bay, Gisborne and Marlborough. The company employed around 450 staff around the country.

Company strategy

As the largest company in the industry, Winery #7 offered a full range of products. Whilst in a leadership position in terms of the size of its operations in the domestic market and its dominance of the industry's exports, the firm was not focussed on cost leadership. It engaged in rational, long-term planning but based on clear values, expectations and dealings with like-minded people inside and outside the organisation. Its very wide range of products included two specifically icon brands, many super premium brands, a smaller number of premium brands, some value and cask wines, a number of sparkling wines and some traditional products. The interviewee for this case spoke only in general terms, would not be drawn on specifics and taking more of a thematic approach than discussion of key relationships.

Key Relationships

A value system diagram illustrates the key relationships for this winery and shows a regional structure and an outsourcing emphasis. An account of the key relationship themes identified in this case follows it.



Sole suppliers

This interviewee spoke in corporate generalities rather than specifying particular relationships. The company aimed to establish permanent long-term partnership relationships rather than short-term price-based ones. In terms of relationship building the company had a clear policy to:

> we try to do it on a permanent long-term partnership relationship rather than short-term price based relationship, and so philosophically the company does that with all the people that it trades with…choose peers who have similar goals, aspirations to us, or they're complementary at least and then work about establishing those (Winery #7, text unit 19).

The interviewee talked about looking for:

> people who would have similar strong goals, standards externally, and then actively or proactively try to enhance those relationships (Winery #7, text unit 19).

The emphasis was on people rather than other firms or organisations.

> So we don't choose people based on price, or things like that, we're looking more for compatibility in the ultimate outlooks, and that applies to any relationship I guess that we have in this company, whether it's somebody we buy something from or somebody we sell something to. So in general that's an attitude running right through the company (Winery #7, text unit 20).

However, there was a caveat: this only applied to the people they used professionally as service suppliers, as opposed to what the interviewee referred to as 'component suppliers'. The company expected partners to be proactive and innovative.

Stability and Planning

One of the key themes of this case was stability. Of all of Winery #7's relationships, the majority were thought to be 'very long-standing'. The company had had a policy of sole supplier relationships for about 15 years. It was thought to be the exception rather that the rule for the company to have changed a supplier during that period. Winery #7 looked on its relationships with other supplier companies as something just short of a subsidiary relationship:

> They just happen to be the specialist part of our business that supplies something or receives something, and they provide a commodity or expertise that we've chosen not to directly control ourselves, but to outsource. But in every other respect, other than that they pay the salaries, not us, we treat the business as the same (Winery #7, text unit 25).

Relationships were tightly managed by individuals within Winery #7 and were based on highly open communications. Substantial investments might be made in a relationship but commitment from the other party in the form of their investment was required. Another key theme in Winery #7's relationships was a very strong emphasis on planning. The aim was to achieve shared objectives and 'plan strategies as opposed to things that just happen'. Occasionally things just happened but that would be the exception rather than the rule. There was one example of a long-term relationship that 'just happened' but it had been something Winery #7 was looking for so it had met a strategic intent. Table 4.2.7.1 summarises Winery #7's relationships, showing little evidence of committed or dependent relationships, emphasising the winery's market power, size and scale.

Table 4.2.7.1 the nature and functions of Winery #7's relationships

Identity	Number	Nature and function of relationship	Comments
Grape growers	None mentioned	Little or no mention of these *Connected* *Direct: critical resource*	Only 1 bad one mentioned.
Outsource partners	Various	Long-term *Connected* *Direct: ancillary activity*	HR and design outsourced for expertise.
Suppliers	Various	Sole supplier policy, very long-term and stable *Connected* *Direct: ancillary resources*	Tight management.
Wine Institute	1	Compulsory membership *Connected, all indirect functions*	No comment
Sponsorship	2 named	Long-term *Connected* *Indirect: market. scout and access functions*	Opportunism with intent.
Other wine companies	0 named	Leadership role, good citizen *Connected, all indirect and social functions*	Competitive and co-operative, of mutual benefit.
Australian wine industry	Various	*Connected* *Indirect: innovation development*	Looks internationally for technical innovation.
Customers	Various	Very long-term and stable *Connected* *Direct: critical activity*	Tight management.

Industry context

Winery #7 felt that it was supportive of the industry in general, that the rest of the industry would see it as a 'good citizen' and that a large company had more to give to the industry than smaller ones. The interviewee's analysis of the industry was again based on people:

> We work hard with those people that have something to give, those people who just take we don't deal with, they're not the type of people we want to have a partnership with (Winery # 7, text unit 48).

The interviewee had had a long career in the industry and over the years:

> I suspect that in a general sense the industry hasn't changed much. (Winery #7, text unit 84).

The stories in this interview covered:

1. Stability in relationships

A picture emerged of a stable, rational, non-bureaucratic organisation which consciously managed its relationships and had experienced little change or disturbance for the last 15 years, an approach doubtless necessitated by the exigencies of the stock market and public shareholders. The emphasis was on people internally and externally who would fit and match the requirements.

2. Choosing and Planning

Relationships did not simply happen. They were sought out and chosen to meet mutual strategic objectives. One recent opportunistic relationship happened to meet a strategic intent for which a search process had been underway. A large and growing company planned methodically and carefully, including the people with whom it did business.

3. Ideology?

There was a strong undercurrent of morality in the interview: the industry was made up of individual people in firms and how the industry operated was a function of people's behaviour: there were moral commitments to be made. It was difficult to know whether these were the interviewee's personal values or the company asserting its philosophy, though the former is most likely. Table 4.2.7.2 gives an overview of the levels of and outcomes from Winery #7's relationships.

Table 4.2.7.2: Relationship levels and outcomes for Winery #7

Level	Actor Bonds (people)	Activity Links (value chain)	Resource Ties (resources)
Micro (firm)	Empowered flat organisation.	- Long-term, sole supplier policy. - Some outsourced corporate functions. - Relationship planning.	- Many contract grape growers. - JVs in markets
Strategic outcomes: Economies of scale and scope, efficiency, cost control, resource leverage and learning			
Meso	- Relationships are	Tight management.	Learning from overseas,

(relationships/ dyads)	described as being with people not firms but they must 'fit'. - Emphasis on individual behaviour & action.		through people movement.
Strategic outcomes: Efficiency, technical and market learning			
Macro (industry/ environment)	Lots of reference to 'people' but no names.	Large focal firm position in the domestic industry.	Tradition of co-operation for mutual benefit.
Strategic outcomes: Leadership advantages, industry reputation			

Case #7 Summary

The interviewee at Winery #7 made many references to people and individuals but mentioned no names and stressed tight management on a functional basis. Rational decisions were made about business relationships. The intent was for them to do business with like-minded people, with a view to long-term stability, leaving little to chance. Relationships were tightly managed and controlled by designated people with an open flow of information in both directions. There was strong emphasis on the strategic importance of relationships but little was said about their operations and content.

4.2.8 Case #8

The company

Another of the four largest New Zealand wine companies, Winery #8 was the last remaining 100% privately New Zealand owned wine company. One of the older companies, it was founded by the owner in 1961. Resources were both company-owned and bought in, the winery owning its own vineyards and also buying in grapes under contract. It had established and publicly floated a vineyard through an IPO, which had 350 shareholders but which Winery #8 managed and whose grapes Winery #8 bought. The winery had a centralised structure but with independent wineries in the three regions of Hawkes Bay, Gisborne and Marlborough. The interviewee sought relationships which were stable:

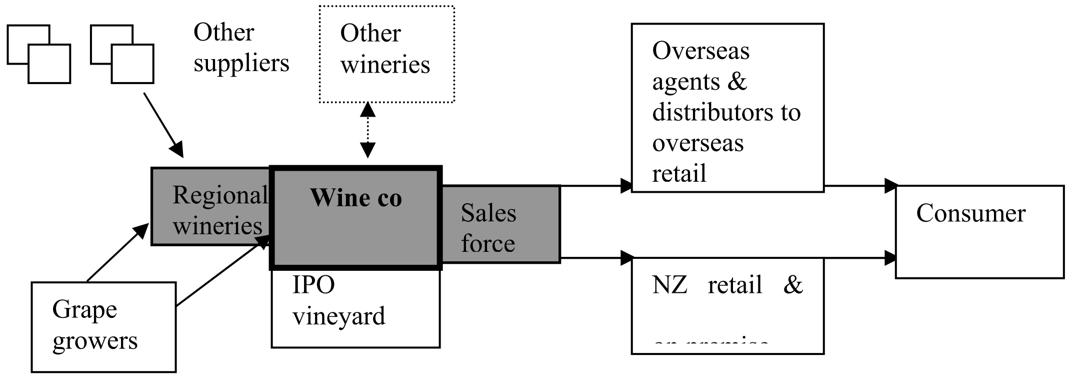
> I tend to sort of really try and get somebody who tries to get to know your company, to try and keep a good long-term relationship there going, not chop and change on price so much (Winery #8, text unit 37).

Company strategy

The company offered a full product range based on focused differentiation and economies of scale and scope but not an overall leadership position. The firm marketed wine in four categories: single vineyard wines, 'exceptional quality' wines, distinctive wines and 'affordable everyday wines'. Strategy was led by a very hands-on CEO, based on cooperation domestically with fierce competition overseas and in retail.

Key Relationships

A value system diagram illustrates the key relationships for this winery and shows a regional structure and an independent approach to sales. An account of the key relationships identified in this case follows it.



Grape Growers

Winery #8 put a great deal of energy into its relationships with grape growers; it had kept one grower since inception in the 1960s. The interviewee characterised some approaches by other wine companies as being adversarial, in which the companies treated the growers as ‘peasant farmers’ and in which the company's policy was to ‘keep them like that and keep their prices down’. Winery #8, however, focused on informing growers and getting them interested in the end product. It held conferences for its growers and brought them up to date with new techniques and went to considerable trouble to separate juice from some growers' grapes to show them what sort of wine it made and where it could be improved. The key issue was quality:

> a lot of our growers are really quite fascinated in the end product now, and we've found that's given us a lot better material. And plus you still will always have an element of the adversary situation, but we found that we've got growers now that are far more understanding of quality parameters (Winery #8, text unit 25).

Above all the company aimed to treat growers as 'intelligent people':

> explaining it to the growers that the exchange rate has a direct relationship on the price of their grapes, and so taking that approach - treating them as intelligent individuals…we found we take a lot of the adversary sort of thing out of the grower's relationship and we've got quite a nice relationship with probably 85, 90 percent of our growers now they appreciate our point of view (Winery #8, text unit 26).

Freight

This interviewee focussed especially on the firm's relationship with its freighting company, emphasising the once a year but vital nature of the relationship during the grape harvest. Trucking companies were asked to work long hours during this period and could be called at unsociable hours. Winery #8 had changed freight providers 3 times in 10 years due to mergers and other restructuring of firms in the industry. The company put on a special 'thank you' function for them at the end of the harvest season to maintain social contact and ensure their continuing service and goodwill. In keeping with the cyclical theme, a similar party was held in the regions for harvest workers and contractors.

Agents and distributors

The winery visited its overseas markets regularly, especially the UK and good agents were considered to be the ones which in turn regularly visited the winery. There was considerable concern about the cost of these visits but they were seen as indispensable to relationship building. Visits by winemakers were considered to be best in terms of motivating and interesting overseas agents though some cynicism was expressed about agents promoting the wine company which had most recently visited.

Glass

Whilst it bought small amounts of specialised bottles from the newly arising glass importers, Winery #8 felt obliged to use the main national glass supply company because it was the only one which could supply in the volume required. Whilst it seemed to be more customer focussed, Winery #8 felt that it was almost a monopoly, that there was little to be done and all one could do was check on the quality of bottles received.

Packaging

Regardless of its overall approach to relationships which focused on stability, the company had recently changed packaging supplier after 15 years. There was something of a competitive battle between the key players and a quote from a competing firm to Winery #8's suppliers had led to a reduction of a couple of hundred thousand dollars. Winery #8 was the retaliation in customer conversion wars which (s)he suspected had been caused by a new entrant from Australia. (S)he further suspected that complacency had crept into the existing supplier relationship. Table 4.2.8.1 summarises Winery #8’s relationships, showing two sets of value-creating relationships and many committed and connected ones.

Table 4.2.8.1 The nature and functions of Winery #8’s relationships

Identity	Number	Nature and function of relationship	Comments
Grape growers	90+	Long-term contracts *Committed/Value-creating* *Direct: critical resource*	One grower for 40 years
Glass	1 main, 3 smaller	Quasi-monopolistic *Connected* *Direct: ancillary resource*	Passive, grudging acceptance, can only check quality
Packaging	1 main	Long-term *Connected*	Changed due to industry rivalry

		Direct: ancillary resource	
Other suppliers - corks, tanks, machinery, sprays etc.	Various	Long-term *Connected* *Direct: ancillary resource*	Personal contacts and visits
Harvesting staff	Many	Regional contractors *Connected* *Direct: ancillary resource*	Personal contacts and thanks in regions
Other wine companies	6+	Comparison and admiration *Committed, all indirect and social functions*	Benchmarking with other large companies, admires quality of some boutiques, decries others
Wine Institute	1	Compulsory membership *Committed, all indirect functions*	Quality control
DSIR	1	Quality testing *Connected* *Indirect: market and access functions*	Export quality OK but retail conditions and poor bottle hygiene
Vineyard	1	Shareholding *Committed/Value-creating* *Direct: critical resource*	350 shareholders
Freight company	Aim for 1	Aim for long-term *Committed* *Direct: critical activity*	M & As means lots of change. Personal thanks
Allied Liquor, Liquorland	3+	Commercial *Committed* *Direct: critical activity*	Highly trained sales force
Agents and distributors	Many	Long-term *Committed* *Direct: critical activity*	Personal contacts and visits

Industry context

The interviewee took the view that co-operation and information sharing were still important to the industry, especially now that New Zealand wine companies were competing with the world. S(h)e believed that the industry competed domestically on the skill of its staff, on individual personal factors, and that there were not too many technical secrets. The company felt that it had basically good relationships with most of the other companies in the New Zealand wine industry but had more of an affinity with those in the middle and small category. The interviewee believed that winemakers were rather like artists and needed communication with other winemakers. Firm strategy seemed to depend on who was at the head of the wine companies:

> there are some companies that change managing directors and suddenly nobody is allowed to go into particular companies, it's a closed door shop, you know, secrets. So a new managing director comes in and then next thing it changes and you're allowed to come in, and chops and changes, and you get that sort of thing which I think is really a nonsense (Winery #8, text unit 50).

The interviewee stressed the social nature of the industry, asserting that people from outside the industry found the level of camaraderie quite unusual. But (s)he pointed to the social nature of the product the industry produced and felt that this explained the strong social bonds within the industry. An example was (s)he had just been overseas on holiday with ‘one of the opposition', who was a long-time friend, and their spouses. (S)he readily admitted, however, that:

> our staff are doing a wine list they'll toss this particular person's wines off the list. We compete seriously in the market place but we don't find that really matters, you can still be good friends (Winery #8, text unit 50).

Commercial priorities prevailed, however. For example in putting together a wine list for a restaurant, if a best friend's product competed too closely, (s)he would not include it whereas (s)he would include a product which did not compete head-on even if 'the particular person that makes it I don't particularly necessarily get on with'. The stories of this interview were:

1. Chopping and Changing

Several narratives involved a change of policy with a change of senior personnel. (S)he talked about wine companies with new managing directors who would chop and change policies about co-operation with other wine companies, customer companies which oscillated between centralised and decentralised purchasing and individual stores obtaining and then losing the right to make stock decisions locally. Having been in the industry for some 40 years, (s)he has seen as good deal of this. (S)he referred to seeking relationship partners who would not chop and change.

2. Poor quality new entrants

A key story involved the threat to the industry from new entrants, not because of their competitive power but from their lowers levels of quality control and the threat to the industry's reputation in overseas markets.

3. Better People

This occurred in two areas. One was sales training that focused on positive human interactions which staff could transfer into their personal lives. The other was that of the skills of the people within the company. Wine companies competed domestically on the skills of their people. Table 4.2.8.2 gives an overview of the levels of and outcomes from Winery #8's relationships.

Table 4.2.8.2: Relationship levels and outcomes for Winery #8

Level	Actor Bonds (people)	Activity Links (value chain)	Resource Ties (resources)
Micro (firm)	- Sales training - better people. - Compete with skills of people. - Personal contacts with customers, agents.	Own sales force for control.	- Contract grape growers closely and personally managed. - Publicly floated vineyard.
Strategic outcomes: Personal and internal control of growth with key resources leveraged.			
Meso	Long-standing	Personal contact with	Long-term, stable, has had one named

(relationships/ dyads)	friendships in the industry.	suppliers firms.	grower for 40 years since firm inception.
Strategic outcomes: Security and quality of supply through long-term trust-based relationships.			
Macro (industry/ environment)	None named	Formal and informal with DSIR and WINZ for quality control.	Information sharing, no secrets.
Strategic outcomes: Reputation effects and technical and market learning from early industry involvement.			

Case #8 Summary

In summary Winery #8 had a tacit hierarchy of relationships. Grapes, stability of supply and their quality, were of paramount importance. There was reference to the agricultural heritage of grape growing in the references to peasant farming, which this interviewee did not share but clearly identified in some firms' relationships. Rather passive in some relationships, there was little to be done about the glass company's quasi-monopoly and the reduction in price and the consequent change of supplier of packaging had been entirely passive, though to Winery #8's benefit. This case illustrates the belief in some parts of the industry that co-operation remained important and that fiercely competitive commercial realities could co-exist alongside long-standing friendships within the industry.

4.2.9 Case #9

The company

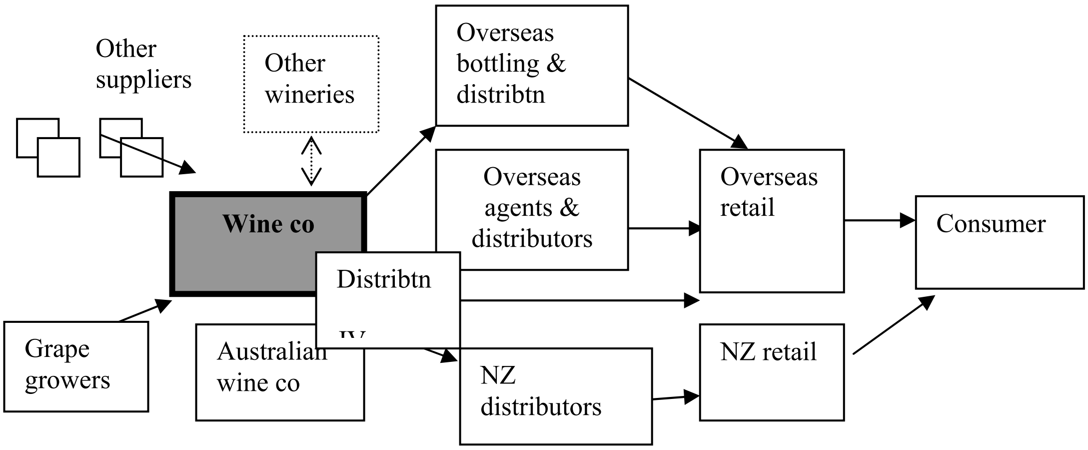
The fourth of the large New Zealand wineries, the company was formed by the father of the present majority family shareholders/managers, though the family connection with winemaking went back many generations. Whilst the firm was a major player in the industry it retained a part of its ‘family’ identity. Nonetheless, the interview was conducted with the most senior employee of the firm and (s)he was thus not an owner. The company had a highly centralised structure, with a head office in Auckland and no physical presence elsewhere. Buying in grapes, these were transported to the centre where they were processed into wine for bottling or for shipping in bulk for bottling overseas.

Company strategy

This company had followed an aggressive exporting path and was now looking to the local market. The company had strong links with the local industry but also followed an independent and somewhat innovative approach to strategy bringing in a venture capital company and expanding based on co-operation and leverage. Winery #9's approach to strategy was to emphasise balance. Getting a balance in export and domestics sales, a balance of control over the source of grape supply and a balance in direct relationships with retailers and indirect through distributors. With a very large (too large?) range of products, this company pursued both differentiation and focused differentiation, based on three elements – the uniqueness of New Zealand products, branding and competences (especially based on relationships) in channels and local bottling.

Key Relationships

A value system diagram shows the key relationships for this winery and its strong emphasis on channels and the unique approach for a New Zealand winery of bottling overseas. An account of the key relationships identified in this case follows it.



Grape growers

In terms of the supply of grapes, there were a number of options:

- Grow one's own;
- Purchase under contract;
- Purchase on the open market;
- Buy in juice;
- Buy in wine.

The fourth and fifth options were rare but they could happen. Winery #9 tended to do little of the first and focussed primarily on option 2 with some of option 3. Most of its grapes were grown under one to three or four-year contracts but there was a group of growers in Gisborne who, for religious reasons, would only agree with a handshake. The company was moving to standard three-year contracts with a 12-month notice clause for either party. The key was to balance security of supply with avoidance of oversupply, to get the right supply at the right price and to avoid being bound to a disadvantageous situation. Flexibility was critical. The difficulty with having no contract, however, was that the grower could possibly obtain a better price by acting opportunistically. The interviewee felt that a 50/50 balance in the supply of grapes from internal resources and those bought in was ideal This was not the case for Winery #9 and indeed (s)he thought this reflected the situation for only one of the largest New Zealand companies and some of the smaller ones.

Agents

Whilst the company did some direct sales to supermarkets overseas, Winery #9 had just signed a new deal with an agent/distributor for the whole of the UK and Europe, with the exception of Scandinavia. Scandinavia was an exception as Winery #9 had a unique agreement with a Swedish company to bottle and retail their wine. The change of European agent had occurred because its previous agent had been unable to cover certain regions. Winery #9 had been looking to set up an agreement with a major UK-based distributor but when it was taken over by another continental firm, Winery #9 negotiated an agreement with the enlarged group. A further new agreement with a specialised agent in metropolitan London completed the new European arrangements. The exclusive agreement had been modelled on a successful arrangement in Australia.

Distribution

The company made a clear distinction between domestic and overseas sales. It had concentrated much energy on exports and was now focusing more on domestics sales. The company had realised that having exports and domestic sales out of balance greatly reduced flexibility and gave the company less options. Winery #9 had just set up a new distribution joint venture with an Australian partner and a local liquor distributor. Each partner had taken a third share in the new entity and the resulting company would be the sole distributor for Winery #9 and the Australian partner. It would also distribute some imported wines and those of some small New Zealand wineries. The new arrangement had arisen because the Australia partner distributed Winery #9's wines in Australia and had used the liquor distributor which was now in the new company. Winery #9 had done its own distribution and the two partners had discussed using Winery #9's sales force but the Australian company had commented that its New Zealand distributor had been doing a good job. Thus the new company had been formed, taking in staff from the old distribution company and also Winery #9's sales staff. Table 4.2.9.1 summarises Winery #9’s relationships, showing many committed relationships, some dependent and value-creating.

Table 4.2.9.1 The nature and functions of Winery #9’s relationships

Identity	Number	Nature and function of relationship	Comments
Grape growers	Many	Mostly 3-year contracts some on handshake *Dependent/Value-creating* *Direct: critical resource*	Much on supply/ price/demand/clone choices
Glass	Allied and one importer	Long-term *Committed* *Direct: critical resource*	Security of supply, some quality issues

Other suppliers - freight, corks, machinery, etc	Many	*Connected* *Direct: ancillary resource*	Little or no mention of these
Wine Institute	1	Compulsory membership *Committed* *All indirect functions*	Positive about information sharing
Wine Guild	1	Voluntary *Committed* *Direct: critical activity* *Indirect: Market, scout and access functions*	Positive about cost sharing in new market entry
Other wine companies	2 named	One New Zealand rival One Australian partner Others associated with new distribution co. *Connected/Committed/ Value-creating* *All social and indirect functions*	Comparison with main New Zealand competitor. Much interaction with Australian partner.
NZ liquor retailers and supermarkets	All major players named	Own single channel to supermarkets and liquor chains *Committed/ Value-creating* *Direct: critical activity*	Control of distribution channels
Distribution cos	All major players named	Three co-shareholders in new distribution co *Committed/ Value-creating* *Direct: critical activity*	Control of distribution channels
Agents	3 named	New relationship in Europe *Committed* *Direct: critical activity*	Single agent to cover most of Europe except Scandinavia and London

Industry context

In terms of winery/grower relations, over the interviewee's 30 years of experience in the industry, (s)he believed that there had been only 2 years out of the last 20 in which a contract had been a help to a grower in times of market over-supply and the winery being obliged to take the grapes. If the grower did not have a contract then the winery would not be bound to buy the grapes from the grower at the price agreed and in an over-supply situation could possibly buy them more cheaply. The interviewee felt that historically the growers that had played the open market had probably benefited more than growers on contracts:

> the grower that plays the open market on the grounds that he's always going to get a better price or gets a better price, is probably winning (Winery #9, text unit 14).

In terms of strategic industry level relationships between wine companies and growers, the interviewee stressed the technical development side of the relationship between the New Zealand Wine Institute and the Grape Growers' Council, pointing to the vine development group, which imported new clones, had them quarantined and then trialled them, as an example of useful group level industry wide co-operation.

A key strategic decision for both wine company and grape grower was what grapes to grow. The grower was looking for the best return per hectare: the wine company was trying to predict what the market would want in 4 year's time when the new vines become productive. Growers under contract may receive lower prices than those selling in the open market, but they would not take the risk of no-one wishing to buy the grape varietal they planted three years ago. Again, the interviewee stressed balance: many growers planted a number of popular varieties of grape to spread their risk:

> in that time [four years for vines to produce] the industry could change so it's a supply and demand situation and if you're in the right place at the right time with the right variety you're doing pretty well…most of them these days are getting more balance, you come to an agreement with the grower and say well we want so much Chardonnay, Cabernet Sauvignon and Sauvignon and plant them up. They'll probably feel a bit more secure at least they've covered themselves (Winery #9, text unit 55).

Winery #9 had a positive view about relationships among New Zealand wine companies, believing that 'most companies mostly get on reasonably pretty well with each other'. Many were drawn together by the Wine Institute which (s)he felt was useful for communication and informal information sharing. Whilst (s)he recognised that this company had been 'doing their own thing' it was still active in the Institute and the (export) Guild. The interviewee had worked for another major wine company and regularly talked to people in the old company. Social interaction was a mainstay of activity, at award dinners for example. Winery #9 had seen the benefits of co-operation through the Wine Guild and other export promotion initiatives, in terms of cost sharing. As the industry matured it might not use wine shows, the Guild and other Institute activities so much. However it still required joint research such as the vine improvement programme through the Vine Development Groups with the Grape Growers' Council. Whilst individual companies or growers could import new vine clones, have them quarantined and then trial them, the interviewee felt that the majority of firms still worked as a group within the industry. In terms of industry maturity, Winery #9 observed that New Zealand wine quality was extremely high,

> wine quality is very good and we've striven for that over the years to get that quality… so technically in the winemaking side of it we equal the top in the world anyway for technology (Winery # 9, text unit 60).

International competition was strong domestically as well as in overseas markets. To fight it the industry had to grow, and specialise geographically, getting the best benefit and economic return out of an area. Growth would come from increased exports through greater volume and this meant more planting. By the year 2000 the Institute was forecasting a total crush of about 100,000 tonnes of grapes whereas in the present year the industry had crushed about 75,000 tonnes and the same in the previous year. Thus there was another 25% growth to achieve in three years. In terms of size New Zealand was a very small player in the global; market:

> New Zealand maybe has the opportunity to have a niche market where we can, we're not big producers... For example, this year Australia crushed about 830,000 tonnes and we only did 75,000 tonnes and there are Australian wine companies crushing more than the New Zealand total production,

> for example Hardys, Southcorp, Penfolds do more than the total New Zealand crop (Winery #9, text unit 64).

The stories in this interview focussed on:

1. Newco: forming a new company

This related to the establishment of a new distribution joint venture company in which the winery had a third share with two partners. This had developed out of existing relationships and formed an even closer relationship with a larger overseas winery.

2. What to grow? - advising growers

The interviewee had risen through the New Zealand wine industry ranks and, like many of her/his peers, had very high level technical knowledge. This permeated her/his analysis of how growers and companies negotiate and decide on what grapes to grow. This contrasted sharply with the stories in this area told by others who concentrated on price negotiations.

3. The state of the nation - an overview of the industry

This was a strategic view of the industry and where it was going internationally. Putting the size of the New Zealand industry into perspective was something other interviewees did. This analysis, however, brought the domestic and the international together from the unique point of view of a company which was rediscovering the potential of the domestic market. Table 4.2.9.2 gives an overview of the levels of and outcomes from Winery #9's relationships.

Table 4.2.9.2: Relationship levels and outcomes for Winery #9

Level	**Actor Bonds (people)**	**Activity Links (value chain)**	**Resource Ties (resources)**
Micro (firm)	- Co-directors in the new company were named. - Sales staff retained and to move to new JV company.	- Control of distribution: Direct in domestic, some direct in overseas, indirect in most overseas markets. - Some final stage production overseas.	Shareholding in new distribution joint venture company.
Strategic outcomes: Innovation through intermediation in channels, growth through resource leverage – from shareholders and grape growers.			
Meso (relationships/ dyads)	Meetings and discussions - none named.	- Contracts for grape supply. - Freight company importance.	- Importance of managing grape supply. - Cooperation on vine planting decisions.
Strategic outcomes: Security and quality of supply from long-term trust-based relationships.			
Macro (industry/ environment)	None named	- Direct to retail. - Rise of supermarket and chains. - Niche outlets will remain.	Information sharing through Wine Institute.
Strategic outcomes: Reputation effects and technical and market learning from early industry involvement.			

Case #9 Summary

In summary the Winery #9 interviewee emphasised a balanced strategic approach, with a strong technical focus. Relationships were used pragmatically: there was little emphasis on the social aspect, purely the practical concerns of the industry. The new company evolved pragmatically: the new agency agreement in Europe was logical and pragmatic. Whilst there was recognition of the social tradition and origins of the industry, there was no mention of personality preferences or difficulty.

4.2.10 Case #10

The company

Winery #10 was a medium-sized private family-owned company, founded by the owners in 1976. They had several children who would take over the business in due course and the interviewee went into detail about the qualifications of its staff and the career intentions of the founders' children. A highly centralised company, and run on a hands-on basis by the founding husband and wife team, it employed over 40 people, including its own sales team. There was considerable discussion of the operations of the winery both in terms of staff activity, who were expected to work in many areas of the operation (ranging from the vineyard, to the bottling line, to the restaurant and shop) and in terms of internal processes. The winery was a prompt payer and had a strict policy on late payers also:

> We have a policy here where if somebody owes money from last month that's overdue, they don't get anything else regardless of who they are. And it works. But we have to have that policy if we're going to pay our suppliers immediately (Winery #10, text units 79-81).

Winery #10 bought its bottles from Auckland but packaging and many other supplies were sourced locally in the region. The company viewed itself as having a leadership position in its local region, being by far the largest winery in the area, and it had a goal of local industry development with itself as the lead/hub firm. The winery had equipment others needed and it hosted sessions at the winery involving other local producers. The interviewee also pointed to the fact that ‘being the first one to have established here’ people still came to seek its advice. With about 50% of its production going to exports, and with that set to rise, the interviewee felt that the company would not wish to grow much more but that security and control were crucial. Winery #10 had a strategy that was clearly one of local regional growth in the interests of all:

> I think that no region can establish itself as a winemaking region without numbers, and if (region name) is going to be seen as a winemaking region it doesn't matter how big the wineries are, we need numbers. And at this stage, I think there's 12 labels from (region name) on the market, but there are 30, I think 32 people growing grapes (Winery #10, text units 124-125).

Winery #10 saw itself as a technical leader in the local region. People visited them for advice on such matters as grape varieties, grafting and the use of equipment etc. Winery #10 grafted all its own vines instead of buying them. Indeed the winery had grafted ‘everything right from day one’. This again showed its independence, leadership and goal of self-sufficiency.

> Phylloxera will never be a problem here because since we started grafting in 1973, from the first wine we produced in ’76, we grafted absolutely everything… we were told that we were wasting money, and wasting a year or two’s production time, by MAF … but [name], with his European training and experience persevered, and we had a lot of trouble sourcing root-stock material, originally, but once we had its established, obviously there was a very big demand for it in recent years, because people have had to replant with grafted stock (Winery #10, text units 208-9).

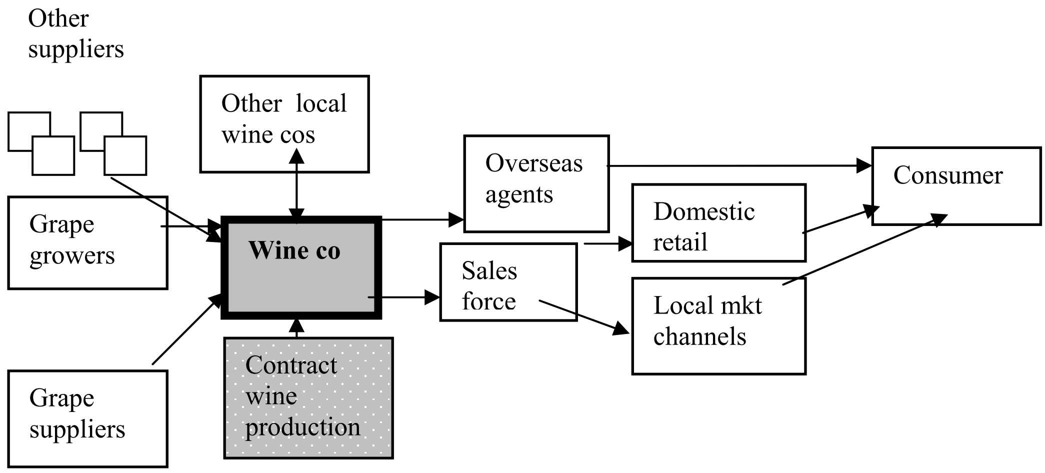
Company strategy

A critical feature of this winery's strategy was its goal of self-sufficiency in grape production and its approach to independence and leadership in other aspects of winemaking. The company's strategy was clearly to be self-sufficient in grape production eventually in order to have control over quantity and quality. Whilst the interviewee thought that wineries were selling off vineyards in order to reduce their capitalisation, Winery #10 had the goal of being totally independent. This company used differentiation and focused differentiation, based on the uniqueness of its products and branding, using internalisation wherever possible. It marketed a limited range of wines: a small number of the ‘pinnacle of our vintage’, the middle premium range and expanded range of a ‘second tier label’.

At Winery #10 the interviewee was highly focussed on the firm’s own strategy, on the context of its strategy and how it saw its relationship activities. The approach was pragmatic and fiercely independent, with clear local objectives. It attempted to isolate itself from relationships or interactions which did not impinge locally or on sales. There was little sentiment or speculation in the discourse and the only relationships which were personal, trust-based ones were those with the overseas agents, perhaps because there had to be trust here since this was the one activity the winery could not do itself.

Key Relationships

A value system diagram shows the key relationships for this winery, noting the contract wine production for grape growers and the independent approach to domestic channels. An account of the key relationships identified in this case follows it.



Growers

The winery had no written contracts with growers and grew 90% of its grapes itself. It was aiming to be self-sufficient and bought only on the spot market as the vintage progressed and if there was the opportunity to buy and process an extra few tonnes of grapes. However buying on the spot market meant that the grape quality was poor. Winery #10 bought grapes mostly in its local region (from 2 growers) and a little from Marlborough (1 grower). The Marlborough grower was a new one, who had approached Winery #10 and it had taken grapes from him over 2-3 vintages. The nature of Winery #10's relationship with grapes growers was different from that of many other wine companies as it was also processing grapes and bottling wine on a contract basis for growers who had traditionally grown for wine companies and sold their grapes to them but who now wished to have their own wine label and no longer wanted merely to grow and sell on their grapes. Thus Winery #10 was assisting the forward integration process among grapes growers, in which wine was made and marketed by companies which did not have their own winery. Winery #10 processed wine this manner for two aspirant wineries and felt that it had ‘pretty close relationships with those people, who know exactly what they want to put on the market’ and Winery #10 worked with their consultant winemakers. It worked on the basis of:

> they pay us to turn grapes into wine, so the wine is always theirs, but we're just acting as a contractor in the middle (Winery #10, text unit 41).

The interviewee pointed to another company in Marlborough, Vintech, now known as Rapuara Vintners, in Blenheim, which also made wine under contract for around 30 growers. Winery #10 had several motivations for this strategy, including ensuring full utilisation of staff and equipment and developing the region as a winemaking area, with the resultant local economic growth. For the growers, it gave them a chance to forward integrate without the initial capital cost, become independent (ie not dependent on a wine company to buy their grapes) and the personal pleasure of having one's own name on the wine label.

Agents

Winery #10 described its relationships with its overseas agents as 'very, very close and very personal'. It had been using the same distributor in the UK since they entered the market 10 years earlier. The company was still in the process of establishing new agency relationships but two had been very long standing and it considered them to have been very successful. This was attributed to frequent contacts and personal visits. The winery had just appointed a second distributor in the UK to handle an entirely different product range. The winery dealt with two major airlines which carried its wines. One of these relationships was very good but these were not always easy relationships as:

> Not all airlines are like that, I'd say. Some airlines think that if you want to be seen on our airline you've got to virtually give us the wine. We're not into that in a big way! (Winery #10, text units 112-114).

Distribution

In the domestic market distribution was done by Winery #10's own sales team, a mixture of part-time, full-time and agency staff. Again, this gave the company control over its sales. The interviewee pointed to the changing policies of centralisation and decentralisation on the part of the retail chains as a source of disruption to the distribution process. As an indication of how sales competition had increased dramatically, when Winery #10 had employed its first sales rep in Christchurch in 1990 (s)he had been the third or fourth rep there. By 1997 there had been around 40 wine company reps in that city alone. Table 4.2.10.1 summarises Winery #10's relationships, showing an avoidance of relationships where possible and commitment only where necessary.

Table 4.2.10.1 The nature and functions of Winery #10's relationships

Identity	Number	Nature and functions of relationship	Comments
Grape growers	Several	Customers for contract wine production *Committed* *All indirect functions*	Assist development of local industry
Grape growers (suppliers)	3	Mostly spot purchases *Connected but avoid*	Direct purchase as opportunity arose
Glass	1	Long-term *Connected* *Direct: ancillary resource*	No choice, quasi-monopoly
Other suppliers - corks, tanks, machinery, sprays	Various	Long-term *Connected* *Direct: ancillary resource*	Local preferred.
Wine Institute	1	Compulsory membership *All indirect functions*	Information and problem sharing meetings
Other wine	none	Competitors	Avoid

companies		*Avoid*	
Domestic retail	Various	Direct *Connected* *Indirect: market and access functions*	Own sales team
Distribution cos	Various	Direct *Connected* *Indirect: market and access functions*	Own sales team
Agents	3-5	Long-term *Dependent* *Direct: critical activity*	Some very, very close, personal

Industry context

In terms of linkages with other players in the wine industry, Winery #10 focussed on its relationships with other wineries in its category of the Wine Institute. The interviewee attended Institute meetings and functions and communicated with others in the industry, trying to seek joint approaches to problems encountered, say, in the market. Whilst there was a good deal of 'sales aggression' in the market, the Wine Institute was 'very much a unified organisation'. There were advantages and disadvantages in being in a region less well known for winemaking in relation to the rest of the industry. There were problems about attending meetings which, although the Institute held some regional meetings, were usually held in Auckland. On the positive side, the interviewee felt that distance meant that ‘you're not part of all the gossip and in-fighting that might be going on’. By and large Winery #10 tried to keep its distance from competitors, however. The key stories from this winery were:

1. Regional Leader

Winery #10 clearly saw itself in a position of leadership in the development of a newer wine region. The company had been a pioneer in the area and felt a responsibility to help others to grow if the region itself was to develop.

2. Forward integration

Part of the leadership role was to assist in the forward integration of grape growers who wished to produce their own wine rather than sell their grapes to other wine companies. This was a controversial area within the industry as others believed this process assisted the over-proliferation of small wine producers within the industry. Not mere philanthropy, however, this assisted regional economic growth and Winery #10 was using excess capacity to do this and it made good business sense to utilise its assets to the full.

3. Self-sufficiency

Having been a pioneer in the region, Winery #10 had had to be independent (or perhaps the independence brought about this pioneering spirit). There were three key areas of independence and self-sufficiency. First, in grape supply: second in vines: third in having its own sales force. The succession of the family business to the next generation might be seen as a fourth. Table 4.2.10.2 gives an overview of the levels of and outcomes from Winery #10's relationships.

Table 4.2.10.2: Relationship levels and outcomes for Winery #10

Level	Actor Bonds (people)	Activity Links (value chain)	Resource Ties (resources)
Micro (firm)	- One or two key people mentioned. - Staff and their qualifications. - Children/next generation in the firm.	- Strong independence. - Own domestic sales force for control.	- Few, most internalised. - Multi-skilled staff.
Strategic outcomes: Internally controlled growth, production innovator.			
Meso (relationships/ dyads)	- Winemaking clients. - Agents managed very closely.	- Contract winemaking. - Tight control on agents, lots of contact and visits.	- Utilising own assets. - Advice to local firms.
Strategic outcomes: Strong links with local industry for regional development and efficient asset utilisation. Only critical access to overseas markets through relationships.			
Macro (industry/ environment)	None named.	- Institute meetings. - Focal firm for local wine industry growth and development.	- Information, communication, and problem sharing. - Source of Phylloxera-free vines for industry.
Strategic outcomes: Shared learning and market position, growth of national and local regional industry.			

Case #10 Summary

In summary this interviewee was highly focussed on the firms' strategy, on what it was doing autonomously, and how it saw its relationships and activities. The company was fiercely independent and had clear locally-based objectives. A realist, the interviewee attempted to isolate her/his firm from relationships or interactions which did not impinge locally or on sales. There was little sentiment or speculation in the discourse. The only relationships which were personal or trust-based ones were those with the overseas agents, perhaps because there had to be trust since this was the one activity the winery could not do itself. This case clearly highlighted regional factors and a focal firm approach to local growth.

4.2.11 Case #11

The company

Founded in 1982 this was one of the smaller of the medium-sized New Zealand wineries. The owner ran the winery with a co-director who also headed a division of a major international wine company. The winery was only the third established in its district and had been a leader in the growth and promotion of that region.

Company strategy

This winery pursued differentiation and focused differentiation based on quality and its regional location. It leveraged expertise and had multiple efficiency-based relationships, especially around production capacity utilisation. It had internally funded and controlled growth and maintained its independence through its own domestic sales force. This company's strategy was to have few own resources though the ones it had, primarily the production facilities, were crucial. Winery #11 produced under its own brands, of which it could not make enough to meet demand, and it also made wines under contract for other companies. The interviewee's strategy was to leverage resources and use expertise rather than owning or employing these. An example of this was when the winery launched a new brand and its PR company, accountant and the two directors came together to plan the strategy. The PR people and the accountant were not employees but the group worked effectively together, 'but without having them all … here, all the time' (Winery #11, text units 132-134).

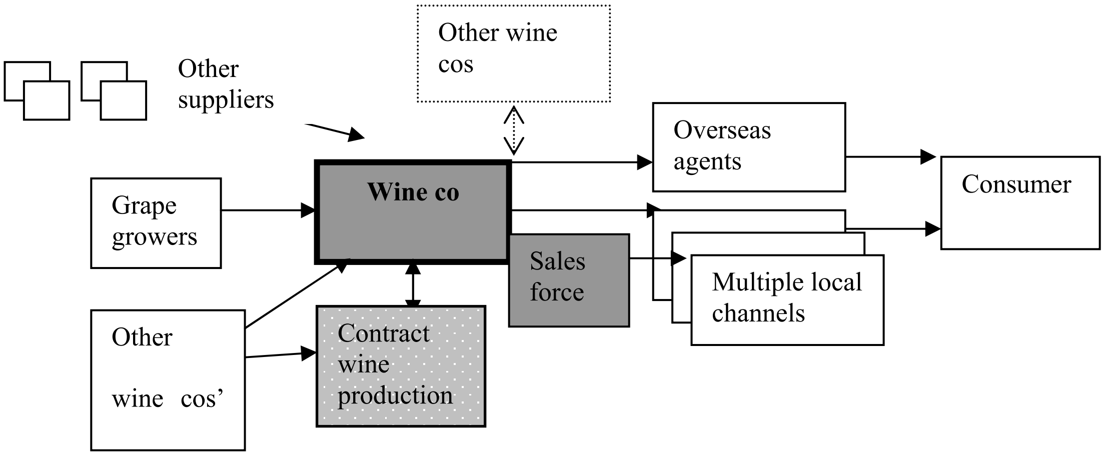
An aspect of the business which perhaps did not fit with the external use of resources enabled by a leveraged approach was that relating to domestic retail. The winery had its own field sales team who were all part-time women staff, which was a deliberate strategy to have a 'countrified' rather than business approach with a deliberately 'low key' style of sales. This was largely related to the small volume of domestic sales and the need to maintain relationships with retailers even if the wine had all sold out. The interviewee acknowledged a conservative approach to this aspect of the business:

> It's very slow growth compared to a lot of other wineries. I err very much on the conservative side (Winery #11, text unit 116).

Thus leveraging resources was more likely to be linked to the company not wishing to grow too much too fast rather than to entrepreneurial risk taking. However, 'getting on' with people was central to the company's key relationships.

Key Relationships

A value system diagram shows the key relationships for this winery and illustrates local co-operation, specifically in production. An account of the key relationships identified in this case follows it.



Joint promotions

Winery #11 leveraged a relationship with another local winery in which the two ran joint promotions and tastings in the domestic market or brought in visitors to the two wineries. This was done to get more people along and to share the costs.

Contract winemaking

Through the company's co-director, who was also managing director of a subsidiary of a major international wine company, Winery #11 made wine under contract for this major player. Winery #11 sourced the grapes locally which were bought under contract to the larger company and made the wine under instructions to the first stage of fermentation. There was no written contract to do this, 'It's a fairly loose agreement' but it had been in place for some 7 years: 'we don't really see that there's a need to have a contract with a company like [name]'. The grapes for this arrangement were bought under contract, however:

> so that if anything happened, and it did disintegrate, we actually wouldn't be left with a whole heap of grapes that we actually didn't want to process (Winery #11, text unit 240).

Winery #11 had also made wine for another winery in the medium-sized category, as that winery did not have its own facilities in the region. This had been done through the other winery's winemaker but another reason cited by the interviewee was that (s)he and the head of the other winery were very good friends.

Grape growers

As seen in the contract winemaking relationship, Winery #11 had the grapes for that wine grown under contract to the client company. In terms of its own grape supplies, it bought in about 40% of its grapes from growers but these were on an 'infinite' contract. The winery had had the same growers for a number of years and they had grown with the winery:

> as we've wanted to increase in size, a lot of them have actually had extra land, so they've just put in extra grapes for us, so in fact, we've probably only added about 2 growers in about the last 5 years (Winery #11, text unit 41).

At the moment the winery had a couple of growers on limited three-year contract whilst its own vineyard was being replanted. Of the long-term growers the interviewee reported that most of them were friends and they maintained social and professional contract throughout the year.

Overseas Agents

The interviewee had been given some advice early on:

> meet all the distributors and if there are any that you don't like, personally, you'll have to get rid of them, because if you don't like them... So in fact I changed them all, and we've probably still got all the same ones, from then…. it doesn't matter how good they might appear to be, if you don't think you can actually just sit down and chat with them (Winery #11, text unit 102).

Thus Winery #11 had had the same agents for 10 plus years. The winery covered 7 markets and received quarterly reports from the key markets. However, supply had been a problem:

> we haven't been able to supply the wine they've wanted yet, so we're still- they're basically selling everything and asking for more. We've really just had to play a game of doling it out as best we can between them all (Winery #11, text unit 108).

Other suppliers

Winery #11 had long standing relationships, going back 10 plus years, with packaging and glass suppliers. It felt that it had very little choice however:

> Well we haven't got much choice in New Zealand, so you either get on with them or you don't … we've got a pretty good relationship (Winery #11, text unit 84).

It had been one of the only wineries with a bottling plant in the early days of the region's development and having all bottles delivered from Auckland had been a problem. This was no longer the case and the relationship was now much better. Table 4.2.11.1 summarises Winery #11's relationships, showing a number of value-creating ones, with some committed and connected.

Table 4.2.11.1 The nature and function of Winery #11's relationships

Identity	**Number**	**Nature and function of relationship**	**Comments**
Own Grape growers	Numerous	Very long-term, informal, with a couple on contract *Committed/Value-creating* *Direct: Critical resource*	Very stable growth
Client's Grape growers	Numerous	Fixed three years *Committed/Value-creating* *Direct: ancillary activity*	Sourced and managed for client
Glass	1	Long-term *Committed* *Direct: ancillary resource*	No choice but better than in past
Other suppliers - corks, tanks, machinery, sprays	Several	Long-term *Committed* *Direct: ancillary resources*	Stable

etc.			
Wine Institute	1	Compulsory membership *All indirect functions*	Fragmented, needs restructuring
Other wine companies	1 overseas 5 local	Contract winemaking Friendship *Committed/Value-creating* *All indirect and social functions,* *Direct: ancillary activity*	Personal contacts and leveraging, joint promotions
Allied Liquor		Indirect *Connected* *Direct: ancillary activity*	Only use if necessary
Distribution cos	None	Avoid *Connected* *Direct: ancillary activity*	Control through own local sales team
Agents	7+	Long-term *Committed/Value-creating* *Direct: Critical activity*	Stable and personal contact

Industry context

One of the key characteristics of the industry identified by Winery #11 was the role of the small wineries. The interviewee felt that these were fragmenting the industry and that there was a need to introduce a new category of membership of the Wine Institute catering for what the interviewee referred to as 'hobby' producers. The objectives of larger producers - of growth, export and profit - were very different from those of the very small producers. There was a strong reaction against small under-capitalised new entrants:

> So I just think that it will become more fragmented. I think a lot of the grape growers down here who have produced their own labels, have caused quite a bit of bitterness in the industry, that they've taken shelf space off people who've put in every dime that they own into building up a winery by investing in a winery, and so on, and they've just gone and had someone make a bit of wine for them, and put it in a bottle and put a label on it and sell it…I doesn't bother me…but listening to other wineries there is a bit of a bitterness against them (Winery #11, text unit 74).

The stories from this interview may be summarised as:

1. New Entrants

This was about the bitterness in the industry which had been caused by the forward integration of grape growers and the resulting lower cost competition this had caused to incumbents. This had fragmented the industry and formal restructuring of the New Zealand Wine Institute was thus needed to recognise the different philosophies of industry players.

2. Contract winemaking

Winery #11 made wine under contract for one overseas company and at least one New Zealand-based company (perhaps ironic in light of the comments about forward integrating grape growers above). These arrangements were *ad hoc* and were based on personal friendships. The larger more ongoing one with the overseas company had been made somewhat more secure by the fact that the grapes which Winery #11 also sourced were now bought under contract.

3. *Personal contact*

The story of how when (s)he was first meeting overseas agents, advice had been given that one had to get on well with such agents and that if one did not have a good feeling about the agent then they should be changed. Thus the interviewee had accordingly changed every agent and had since had long standing relationships with all of them. Personal contacts were also important in relationships with other wineries and in how Winery #11's sales force worked. Table 4.2.11.2 gives an overview of the levels of and outcomes from Winery #11's relationships.

Table 4.2.11.2: Relationship levels and outcomes for Winery #11

Level	Actor Bonds (people)	Activity Links (value chain)	Resource Ties (resources)
Micro (firm)	- Mention of: Winemaker Co-director Other wineries PR co and accountant.	- Contract winemaking. - Leveraging expertise.	- Client's grape growers. - Own grape growers. - Leveraging external links.
Strategic outcomes: Leverage external expertise, control growth internally, independence in channels.			
Meso (relationship dyad)	- Friends in other wineries. - Personal contacts with agents. - Personal selling.	- Overseas agents closely managed, get on with them. - Own sales force for control.	Direct sales.
Strategic outcomes: Security of supply and quality through long-term trust based relationships with growers, opportunistic capacity utilisation through contract wine production			
Macro (industry/ environment)	Winemakers' professional links	Formal and informal through Wine Institute, Wine Guild and joint promotions with other wineries.	
Strategic outcomes: Leverage market-based connections.			

Case #11 Summary

Leveraging resources was crucial to Winery #11. This may have been due to conservatism and the desire to grow in a controlled way. The sales force was internal and its style deliberately managed, especially since supplies of wine did not meet demand. Overall the picture was one of a conservative approach, in which leveraging relationships was a way to control growth carefully rather than to grow regardless of resources. It was perhaps ironic that other wineries, which also made wine under contract, as did Winery #11, were enabling the forward integration by grape growers which the interviewee identified as a problem fragmenting the industry.

4.2.12 Case #12

The company

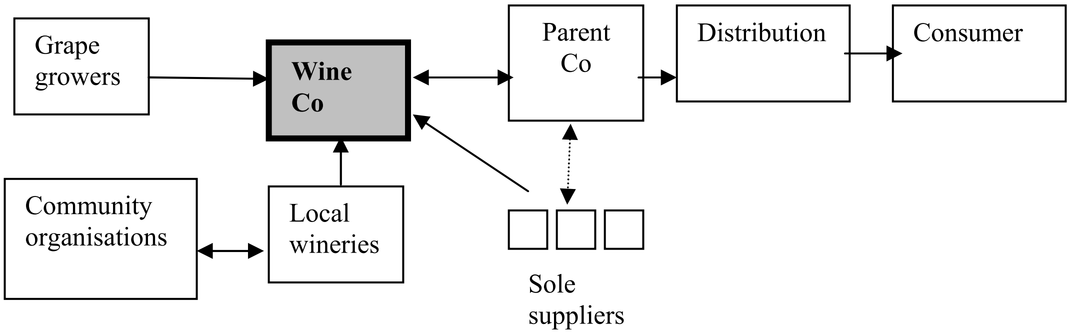
This winery was a regional subsidiary of one of New Zealand's larger wine companies, Winery #7. It had a large degree of autonomy, though bottling and packaging were done at headquarters. About a quarter of Winery #12's grapes were bought under contract and the rest were grown in the company's own vineyards. The aim was to allocate its own grapes to production for export and to use contract grown grapes for production for the local market. This secured supplies whilst balancing capital allocation for purchasing land. In the longer term however, as finances allowed, the strategy was to plant more of its own grapes and reduce reliance on contract growers. This was a 'self-contained' regional division and claimed to be the largest production unit in the country, processing 17.5 thousand tonnes of grapes the previous year (out of a national total of around 78 thousand tonnes) and was likely to process 16 in the current year. The winery managed local sales and marketing and wine production up to the bottling stage, when it was transported by rail to headquarters. All divisions of the company did this since this complex was the most expensive production installation in the company, involving complicated technology, stainless steel equipment and new machines. Currently the bottling hall was operating 20 hours a day, 6 days a week.

Company strategy

As a very large regional production subsidiary with a wide range of products, this firm's strategies were hybrid, based on economies of scale in grape growing and centralised production, with differentiation and focused differentiation across many different product-market segments. The strategy for quality control was to produce export products from its own vineyards and domestic from contract grapes. The winery produced a high volume of mid-range products for the parent's portfolio of products, fitting within the regional premium and value categories, though with a fair degree of autonomy in its winemaking.

Key Relationships

A value system diagram shows the key relationships for this winery a key feature of which is the internalised corporate structure. An account of the key relationships identified in this case follows it.



Agents

This interviewee said very little about certain relationships, agents and distribution for example, because (s)he managed the subsidiary operations and did not get involved in those aspects of the business. (S)he commented about the Australian market and was positive about Winery #12 employing its own sales force in that market and the results that had brought to performance: '[over] the last 18 months ... we're up to our 5 year plan already'.

Grape Growers

Where the interviewee was much more knowledgeable concerned growers. Around a third of Winery #12's grapes were contract grown and the company's relationship with the contract growers had in the past been 'pretty stormy'. This was largely because of pricing strategy: the interviewee described Winery #12 as a middle of the road wine company most of whose product was in the 10-15 dollar category. Consequently its grapes had to be priced accordingly (that is, cheaply) and so the company looked for grape prices at 4-800 dollars per tonne. This compared with the approach of a large number of so-called boutique wineries which may only buy 50 tonnes of grapes but were prepared to pay up to 2,000 dollars a tonne and would then sell their wine at 28 or 30 dollars a bottle.

A further consideration had been changes to contract conditions. Winery #12's contracts had in the past extended to 15-25 years. The company now felt that this was unrealistic, that the industry had grown so fast with so many changes that it was hard to know where they would be in five years let alone in 25 years. Thus the contracts had been brought back to 1-5 year agreements and were based on the value of the wine in which the actual grape grower's product ended up. Thus if the grower's grapes were used in a say, 5-6 dollar per bottle wine then they could expect 400 dollars a tonne. If their grapes went into 15 dollar wine then they could get a quality bonus payment per tonne.

Winery #12 had 57 growers of whom 15-20 had been with the company for at least 10-12 years. Of the company's original 14 growers it still had 3 who had been with the company for over 17 years. The rest of the growers had contracted to the company more recently. Interestingly, grower relationships were conducted by a vineyard manager who was based at Winery #12 but who reported direct to head office. Historically, Winery #12 had inherited over 50 contract growers when it had first entered the region by buying an existing wine company. The majority of these contracts had been 99 years with the growers having the right of renewal. Thus Winery #12 had begun 'buying our way out and talking our way out of most of that'. When in the early 1990s the New Zealand Commerce Commission had ruled that collective grape contracts were illegal, Winery #12 had seen this as very positive, enabling individual contracts and contract conditions.

> at that stage we started looking at the history of the growers and in all fairness to them paying them what they were worth and what their grapes were worth (Winery #12, text unit 29).

In terms of the future of grower relationships, the interviewee found it hard to balance what (s)he referred to as the humanistic element with the business requirements. A humanistic approach would mean such actions as putting the grower's name on Winery #12's wine labels, associating its name with the grower's and entertaining and building a personal relationship with them. However the company's strategy was to see the growers and the winery as two separate industries in a relationship in which the winery would give technical advice but go no further. Ultimately, Winery #12 wished to internalise grape production and thought that contract growers would disappear as grape prices reduced further. Small scale growers would become uneconomic and the only way to survive would be for growers to combine. Their approach to grape growing would be crucial:

> the ones that are growing will be the business people and the business person who does keep it on a business relationship rather than a family, extended family relationship. I don't think there's any room for that. It's good to get started and its good as a security and the huddles in a group and they share their worries and that but at the end of the day its the money that counts (Winery #12, text unit 44).

The numbers of growers would diminish but perhaps never disappear. Of 1,000 contract growers nationally within 5 years the interviewee thought that through take-overs and mergers among growers there would be around 250 large ones with any scale economies. The issue was one of size:

> if we were on a smaller scale and we had half a dozen contract growers, they would be very much like part of the extended family (Winery #12, text unit 43).

The extent of any closer relationship with growers was in the bonus payment system and thus purely economic:

> We try to have that relationship with the grower, we try to give them the extra payment if we gain more for their grapes than what we thought in the end than what we intended, then they will share in it (Winery #12, text unit 43).

Whilst growers were on contracts, the interviewee was sceptical about the ultimate value of written contracts should the relationship go wrong:

> like most contracts whilst they were down on paper to actually get out of them you'd have to go to the High Court be really prepared to wait 10 years so its easier just to let it go. And also from a public

> relations exercise it's better to let it go. In our contracts of today we actually give each party a year or 12 months to pull out (Winery #12, text unit 33).

Other Wineries

As one of the country's large producers, Winery #12 felt that it had developed the region in which the subsidiary was situated. During the early years it had used the regional name to build the province and to promote it. Because the region had grown so much it was now harder to find vineyard land, as Winery #12's success had contributed to the process of driving up the price of land. However, the majority of small wine companies who had entered the market were now producing premium products. They had added colour and character to the region. For every local company that won an extra gold medal, the interviewee believed, everyone sold more wine. The newer smaller producers were needed but only as far as the marketplace.

> When you get to the marketplace then it's all hands off (Winery #12, text unit 59).

In terms of relationships with other wine companies nationally, these were changing. The company had been seen quite negatively in the past because of its size. Grape growers and other producers had felt that the lower pricing strategy had reduced incomes for growers and others. The interviewee felt this had changed because others could now see that the company had been pricing to appeal to the largest section of the market. Over the last 5 or 6 years it had become a very profitable wine company. This had been done through planning and making the hard decisions, particularly with contract growers. Winery #12 felt that its success had spilled over to a lot of the industry and that it had helped the majority. (S)he went as far as to say that:

> each and every one of them out there would owe [Winery #12] a favour or two. We used to sell under the [...] label when the market became too big for us we then took the other companies with us, so that was still [Winery #12] led [Winery #12] driven" (Winery #12, text unit 50).

Other supplies

Through its parent headquarters, Winery #12 had a single supplier policy and had a policy historically of not having 'split supplying' whereby one supplier was pitted competitively against another. As a large company, it could expect excellent service and it involved its staff in quality circles and had helped suppliers through their ISO 9000 accreditation. The company bought as many bottles as the New Zealand glass manufacturers could provide but had to go offshore to purchase particular bottle shapes. Packaging had been supplied by the same New Zealand companies for the last 10 to 15 years. All of these relationships were now handled by headquarters in Auckland, though this had not always been the case. In terms of distribution, Winery #12 and its parent were one of New Zealand Rail's largest clients. The account was managed by one person at NZ Rail and this worked well. In the past, when the rail company had had only half of the company's business, the service had not been so good. Again, size was important. In terms of distributors, the company had service contracts and key account managers within the company who met only with their key account.

The company has its own sales people and merchandisers who worked in supermarkets, freely taking the wine from the retailer's storeroom, putting it on the shelves, doing the arrangements, selling and conducting tastings. Retail outlets were now selling shelf space though this was not the case for Winery #12 as this continued to be a profitable label for retailers. Winery #12 sourced tanks locally, and tried to source other inputs locally if possible. There was much talk of 'opening up the books' as part of the process of relationship and trust building. Whilst the interviewee described a 'more humanistic approach' as mentioned above, which (s)he was aware was going on elsewhere, this was not the philosophy of Winery #12. The emphasis was on the economic factors and the key focus was on price:

> the product we're selling is in fact decreasing in price in the marketplace so we're trying to bring it down to a presentable price so everybody's taken a cut and we open up our books completely to the grape growers' association they are quite prepared to come and have a look and once they do they take our offer up (Winery #12, text unit 33).

Table 4.2.12.1 summarises Winery #12's relationships, showing evidence of internalisation and more envisaged, but with the reliance of a large customer on non-internal services and supplies.

Table 4.2.12.1 The nature and functions of Winery #12's relationships

Identity	**Number**	**Nature and function of relationship**	**Comments**
Grape growers	57 and reducing	Short term contracts though some loyal (had 3 for 17 years) *Dependent/Value-creating* *Direct: critical resource*	Bonus for quality, ltd help, reducing numbers
Supplies – glass, corks, tanks, machinery, sprays	1 for each	Sole suppliers with Key Account Managers *Committed* *Direct: critical resource*	Head office policy though some local (region) sourcing
Parent company HQ	1	Autonomy up to bottling stage *Internal* *Direct: critical activity*	Ownership, economies of scale
Wine Institute	1	Compulsory *Committed* *All indirect functions*	Subsidiary not a member in its own right
Other wine companies	Various	Helped all local firms in past *Connected* *All indirect and social functions*	Role of large firm
Rail	1	Key Account Manager *Committed* *Direct: critical activity*	Large customer so importance of business means good service
Sales	None	*Internal* *Direct: critical activity*	Own sales teams domestically

Industry context

Typical of the traditional balance in the industry between cooperation and competition, being a large company Winery #12 felt that it had perhaps sometimes made aggressive use of its large size domestically but had never stepped outside the bounds of ethical business practice. Winery #12 had supported other wine companies financially and helped companies in the local regions make wine, had helped them with grapes and with resources for making wine. The company believed in building the New Zealand brand and had put its resources into doing this for the good of *all* producers. The interviewee had taken a leading role in the local winemakers' association which had been a decision taken at headquarters for the company, not from a personal perspective but:

> I have been advised or told ...Yes I think just the sheer fact of being manager of that group has given me that position (Winery #12, text unit 63).

The industry was very important economically to the local region and the interviewee had recently informed the local district council of the value of wine in barrels and tanks in its region. Relations with local councils were characterised as difficult, with councils fearful of the industry encroaching on its territory, of its sheer size, importance and expansion. Winery #12 described the industry as one of many domineering characters, as ‘go-getters’, very outspoken and a ‘very opinionated little bunch’. (S)he believed that its local council had a hard job controlling that group, especially in the light of the Resource Management Act. The wine industry had put its region on the New Zealand map but the local council had not been able to understand it and problems had arisen in such areas as disposal of grape skins, tank sediments, tractor dust, the noise of bird-scarers, helicopters for frost protection, effluent disposal and control of waste products. In comparison with other industries, such as the mussel industry, the wine industry brought in a good deal of income in rates: however, the mussel industry could not grow in the same way as the wine industry:

> The wine industry can grow in value. It doesn't have to grow in size, all we have to do is lift our product in quality, quality, quality. And it can grow and it's not only that, wine is very much a flagship product and it’s seen as clean green and beautiful. (Winery #12, text unit 68).

The expansion of tourism, however, had meant, for example, that hotels had been built overlooking vineyards but the needs of people now meant that:

> in reality they could stop us harvesting grapes or producing grapes. So we haven't got the right to farm, it is not there (Winery #12, text unit 72).

The Winery #12 interviewee cautioned against believing what (s)he referred to as the ‘media hype’ behind the New Zealand wine industry's success and glamorous perceptions of the industry. (S)he thought that the industry believed the exaggeration of its own PR machine and emphasised the very small size of the industry in world terms. The industry’s product was of high quality but it was still minute and there were also 4 million litres of surplus wine in Europe. That could be bought and shipped over to New Zealand cheaper than grapes could be grown here. Winery #12 saw the industry in the past as a social one in which people could have a comfortable life. But as land was becoming harder to come by prices had been driven up so that the people who were now buying were professional business people who were looking at the long-term and taking a hard business approach to it. This winery's stories focused on:

1. Don't believe the hype

The interviewee had been in the industry for over 20 years and whilst proud and positive about its achievements, (s)he was realistic about the size and importance of the industry globally. (S)he also looked back to the more 'extended family' nature of the industry which was being lost.

2. What we've done for them

As a very large player in its industry and its region, this company had helped to build the industry and its markets. This was not altruism but of mutual benefit.

3. Industrial scale production

There was nothing 'lifestyle' about this part of the wine industry. This cost leadership production efficient focus gave Winery #12 a unique but strong position in the industry. As the manager of such a production unit the view of the interviewee was insightful but quite particular to the industry. Table 4.2.12.2 gives an overview of the levels of and outcomes from Winery #12's relationships.

Table 4.2.12.2: Relationship levels and outcomes for Winery #12

Level	**Actor Bonds (people)**	**Activity Links (value chain)**	**Resource Ties (resources)**
Micro (firm)	- HQ MD mentioned by name. - National vineyard manager by role.	Controlled by parent HQ.	- Formal, mostly through parent HQ. - Grape growers, reducing in number, contractual and taking on no more.
Strategic outcome: Strong internalisation with economies of scale and scope through corporate control of production and channels, and reducing grape resource leverage.			
Meso (relationships/ dyads)	- Interviewee's own role and experience. - Extended family in industry and company in the past, now gone.	Local winemakers' association and interviewee's own role in local industry.	- Aim for local supply. - Formal parent HQ single supplier policy.
Strategic outcome: Tighter control through contracts.			
Macro (industry/ environment)	- None mentioned. - Industry as social industry.	- Informal with other wineries. - Local district council,	Other wineries (one way assistance by focal firm).

	- Local winemakers' association.	information and lobbying. - Other wineries (role of focal firm one way).
Strategic outcome: Reputation effect and leadership role in industry development.		

Case #12 Summary

In summary, the emphasis at Winery #12 was on the economic, the transactional, cost and pricing, economies of scale and yet the interviewee saw how other (smaller) companies were able to take a more 'humanistic' approach. The relationship building that went on with the grape growers was purely based on the necessity of having to buy from them. The aim was to completely internalise and not to have to undertake this relationship building activity. This interview portrayed tension between the exigencies of size, scale, price, production and the alternative, perhaps past, of humanity, a personal approach, and a social and family orientation. In the past, the wine industry would get together socially for three or four days:

> and we'd have a big party. There was no animosity, no nothing. Wine industry with Croatian dancers and God knows whatever. That up to a certain extent has gone. It's still there around Henderson and areas like that but in Marlborough no, it's certainly not there because very, very few people have experienced it and its become very much business-like (Winery #12, text unit 99).

4.2.13 Case #13

The company

The interviewee at Winery #13 had a somewhat limited perspective on topics upon which (s)he felt confident to express a view. Thus nothing was able to be said about agents and little about distribution or other suppliers. As the local manager of a production subsidiary of a large producer, (Winery #6 and a sibling of Winery #15) (s)he was not involved in those relationships and thus could not comment. Whilst describing autonomy, the picture emerged of an isolated production unit with clear instructions and guidelines on wine styles which were then carried out. Winery #13 produced wine up to the bottling stage when it was sent by rail to headquarters for bottling. Thus all aspects of supply such as glass were handled there.

The winery had little involvement in sales, other than cellar-door wine sales. This particular regional operation generated production which was much smaller than in the company's operations in the other two regions, but its average value per litre of wine was a lot higher, since its area carried a premium. Production was planned to increase, however, and local cost control was critical: labour costs were lower than in this region and, like other wine companies, Winery #13 was tightening prices paid to grapes growers. The interviewee had little or no involvement in marketing and pricing decisions but was given quite definite style and price guidelines for the wine production. In terms of the proportions of grapes bought in and grown by Winery #13, whilst the winery's official figure was 50%-50% the interviewee thought that the actual figures would show less grown by the winery and more bought in.

Whereas some of the other larger wine companies took the opposite approach and were investing heavily in their own vineyards, Winery #13 and its parent had what was referred to as supply arrangements. Controlling one's own vineyards was considered to be an approach which was: 'the more traditional, old world winemaking' (Winery #13, text unit 98).

The winemakers in the company's regions were reasonably independent at making up blends and managing relationships with their growers. There was communication between them and a little technology flow. Regional management meetings had been held for a while but these no longer happened. The interviewee felt that other regional managers would like to see each other more often. As for autonomy, this had been reduced two years previously.

Company strategy

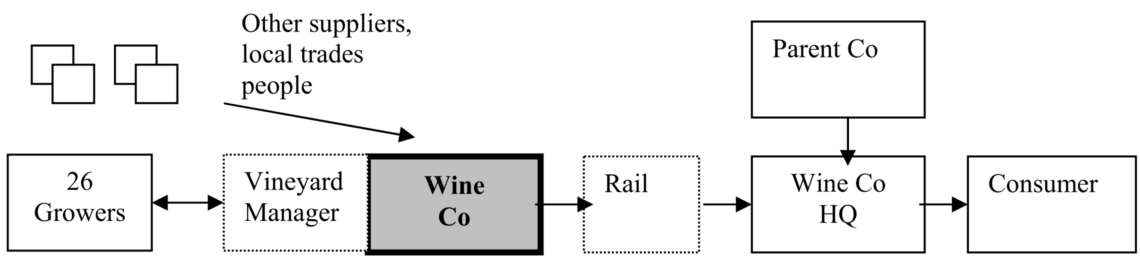
This was a regional production subsidiary with a wide range of products. The emphasis was on growth through encouraging growers to get bigger and through the premium that the region commanded in terms of price. Thus this subsidiary's contribution to strategy was through product differentiation with a price premium rather than focused differentiation:

> from an export point of view, you get an extra pound a bottle if its got [region name] on the label, up to two pounds a bottle so its sort of a premium region (Winery #13, text unit 70).

The subsidiary decided how to make the wine, with some quite definite style and price guidelines given to it from HQ.

Key Relationships

A value system diagram illustrates the key relationships for this winery and shows a regional/corporate structure. An account of the key relationships identified in this case follows it.



Grape Growers

Grower relationships were expected to deteriorate in the future because the winery's cost controls meant that company's and the growers' goals were becoming increasing divergent in terms of yield, and monetary return for the grapes. In general, while the companies were holding prices down, the growers were expecting at least to maintain their income. This would result in some of the better growers, who could sell their product at a higher price elsewhere, doing so. Winery #13 had 26 growers under contract and this number was expected to stay fairly constant. Whereas the winery used to draft growers' contracts this was now done at headquarters, tightening up and taking stronger control of grower contracts. The growers much preferred interpersonal relationships with the local winery and disliked dealing with someone on the telephone. There would be natural attrition and a roll-over of contracts. Many new vines were being planted and, since the company was not investing in vineyards, in order to expand it needed to buy more grapes.

Parent Company

For the interviewee in the Winery #13 subsidiary, the relationship with the parent company was limited to interaction about investment and planning, and investment decisions in vineyards. The interviewee had a pragmatic view of the share holder:

> They don't understand winemaking and they don't pretend to, they're only interested in the profit, profit and loss and capital investment, and all that sort of more bottom line decisions... they still want to suck out as much as they can and take it back home. That's why they've invested, it makes them money. That's fine. That's why they do it (Winery #13, text units 100-102).

The interviewee described an independent position for the winery: through changing senior management or shareholders, procedures such as accounting or performance indicators changed but these factors made little difference to the operations of the winery. (S)he also described the operation's position as being 'out on a limb making wine'. The managing director had not visited the winery for 5 months and no visit was expected. The interviewee went to headquarters once every 6 to 8 weeks, usually when all the winemakers were brought together to be briefed or consulted. Table 4.2.13.1 summarises Winery #13's relationships, emphasising an internal and merely connected view of these.

Table 4.2.13.1 The nature and function of Winery #13's relationships

Identity	Number	Nature and function of relationship	Comments
Grape growers	26	Contracts *Dependent/Value-creating* *Direct: critical resource*	Negotiated by HQ, managed locally
Other supplies – glass, corks, tanks	Various	HQ *Committed* *Direct: ancillary resources*	All handled by HQ
Parent Co and share holders	1+	Ownership and control, investment *Internal* *Direct: critical activity*	Mix of autonomy and instruction
Other wine companies	None named	Non existent *None*	No reason to talk
Rail	1	Long-term *Dependent/Value-creating* *Direct: critical activity*	Essential to take wine to HQ for bottling
Visitors	Many	Obligatory PR talks *Connected* *Indirect functions: market,*	

		scout and access	
Sales	Unknown	Cellar door sales, internally managed *Internal* *Critical activity*	Limited interest and/or knowledge

Industry context

The interviewee had very little to do with other wineries in the region, and only mentioned an effluent system which the local wineries had worked on together. Interactions were casual and in fact the interviewee had 'no reason to call on them'.

> I guess there's not reason to talk to them about anything in particular (Winery #13, text unit 52).

The interviewee was more likely to interact with other winemakers within the parent company group (see above). The stories from this interview covered:

1. Parent/subsidiary relations

The first set of stories (short ones in this interviewee's case) revolved around managing a subsidiary and the changing nature of control and autonomy from and with headquarters. The region was important to the company, the share- holders were not interested in wine, they were merely making a sound investment. Roles were clear cut: what the subsidiary did was clearly defined.

2. "Exports are quite confusing"

This related to the interactions of parent and subsidiary, and the interviewee's lack of involvement (interest?) in business areas outside winemaking, specifically marketing, exporting, sales and distribution.

3. Grower relationships

The interviewee described the divergent interests of growers and wine companies, and what (s)he saw as the ultimate deterioration of these, quite dispassionately. Oversight of contract drafting was now the responsibility of head quarters and growers were managed by the vineyard manager but the interviewee seemed to have no personal involvement in any of these non-company based relationships – not even with other wine companies in the region. (S)he only made positive reference to other winemakers in the company. Table 4.2.13.2 gives an overview of the levels of and outcomes from Winery #13's relationships.

Table 4.2.13.2: Relationship levels and outcomes for Winery #13

Level	Actor Bonds (people)	Activity Links (value chain)	Resource Ties (resources)
Micro (firm)	- Managing Director named, visits mentioned but only when problems. - Vineyard manager	- Export manager named. - Wine sent by rail to HQ for bottling. - HQ sets winemaking	- Shareholding parent visits to talk about investment decisions. - HQ controls contracts

	named.	style guidelines.	with grape growers.
Strategic outcomes: Efficiency and effectiveness through tight corporate control of costs, purchasing, production and marketing. Grape resources leveraged.			
Meso (relationships/ dyads)	Communication and some technical exchange with other winemakers within the company.	No reason to talk to other wine companies.	- Local management of grower relations. - Relations expected to deteriorate as goals diverge.
Strategic outcomes: Increased cost control, reducing long-term trust based relationships with growers.			
Macro (industry/ environment)	None	None	None
Strategic outcomes: None			

Case #13 Summary

Winery #13 was independent but isolated – even within the local community, as a large firm subsidiary. Much of this may be the personality of the interviewee – this person was taciturn and not readily drawn to discussion. Even though the industry was characterised as a social and sociable one, as a winemaker this person appeared content to focus on technical aspects and not to consider wider business issues. It may be relevant that this interviewee was considerably younger than the manager of the other local subsidiary of a large wine company in the case of Winery #12.

4.2.14 Case #14

The company

Winery #14 was medium-sized and 100% overseas-owned but saw itself as very much a New Zealand company having been one of the first to enter and develop its region - the interviewee had been with the company since its establishment. Its overseas ownership and the then different regulations for the operations of overseas companies meant a complicated structure of land ownership and tenancy. Winery #14 had considerable autonomy and the company placed most importance on marketing its brand based firmly on the wine's regional identity. The dominant shareholder was in one country and the managing owner in another. The parent and holding company were dominant players in the global liquor business. Winery #14 had considerable interactions at various levels with sibling companies, especially one in Australia which had identical ownership, a common managing director, joint marketing - whereby the wines were marketed alongside each other all round the world - and the brands were linked in the packaging and labelling. The two companies also shared technical information. The winery and the managing director were in communication every day and the managing director visited New Zealand around four times a year. Whilst (s)he had handed over more responsibilities over the years, (s)he still handled major decision-making, such as export and market development decisions. The winery received visits from other winemakers within the group of companies, from Australia and the US, and had sent staff to the US for work experience. Links within the parent group were very friendly but also competitive and seen internally as healthy. Finally, through the head of another branch of the company in Australia, the winery had closer connections with another local winery. Critical to the majority of Winery #14's relationships was its ownership structure and the interaction this brought with it.

Company strategy

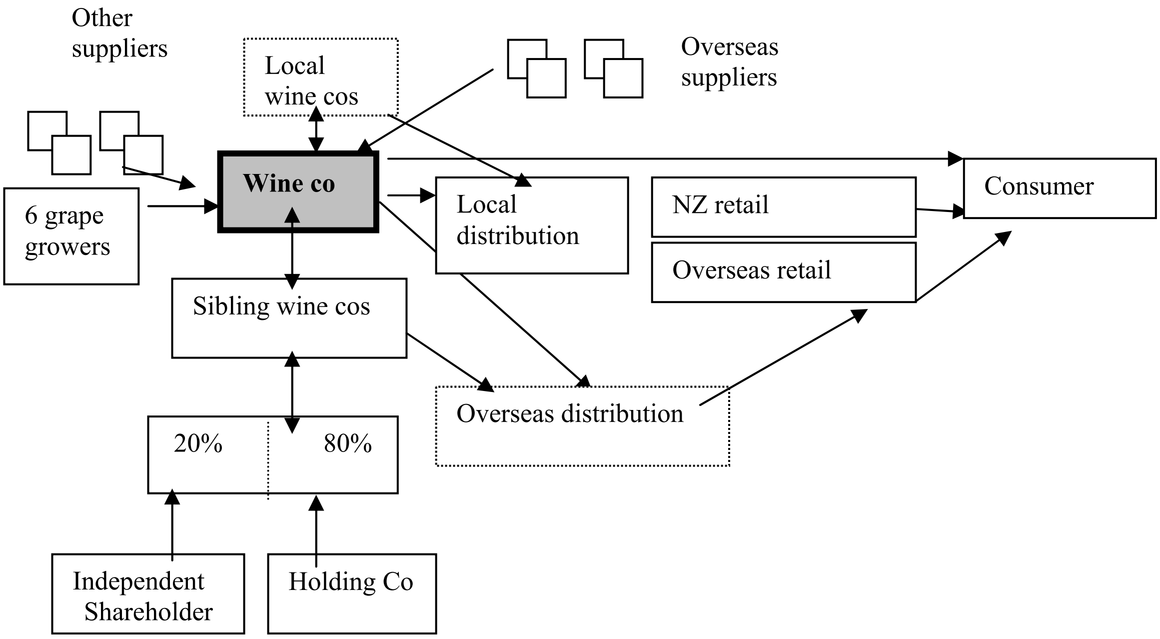
The company did not source grapes from outside the region since its wines were regional wines that reflected its location, which had been critical in the investment and development decision. The winery produced a small range of ultra premium and super premium regional wines, and its strategy was based firmly on its region's role in the parent company's global portfolio and its location price premium.

Key Relationships

A value system diagram shows the key relationships for this winery and particularly shows ownership connections, especially in channels. An account of the key relationships identified in this case follows it.

Distributors

In each country to which it exported Winery #14 had an importer/distributor, which in most cases was part of its parent company. These tended to be in partnership with related companies which also had relationships with the parent company. In Australia, for example, the importer was a sibling company but distribution in each state was done by another distributor. Within New Zealand the distributor also distributed wines from the rest of the parent's group. This company was a subsidiary of a company in South Australia which owned wine companies in New Zealand which were also direct competitors of Winery #14. However, relationships with other wineries involved in the distributor's portfolio were friendly. Thus Winery #14 had no interactions with domestic retail, as this was undertaken by the distributor, and only targeted on-premise sales to restaurants and fine wine stores.



Grape Growers

Winery #14 grew about 30% of its grapes, while the other 70% was grown by 6 growers. These were almost all long-term relationships which had been in place since the winery's inception. The growers had 15 year contracts and all 6 growers had been with the winery for at least 9 of the past 11 years. Winery #14 had an unusual arrangement with the growers in that it had sold the growers their land. When the winery had been established the country had been in a state of over-supply, and grapes were being pulled out. The winery had seen the opportunity to link up with existing growers, whose production was excess to other companies' requirements: 4 of the now 6 growers had been existing growers. Although overseas-owned, Winery #14 had been one of the first companies to be allowed to purchase land. The property was approximately 140-160 acres but the winery had only been allowed us to buy 75-80 acres. Thus it sold 60 acres in 20-acre blocks and gave the people who bought the blocks a contract to grow grapes for the winery. A condition for them buying the 20 acres was that production had to be for Winery #14. Only one of the original growers no longer grew for the winery, and this split had been based on an amicable agreement. In the future the winery did not intend to take on any more growers. It was planting its own grapes, it had 200 acres of bare land, and it was also giving some of its existing 6 growers an extra contract to grow more for it, rather than take on more growers. Thus the winery was encouraging some of the growers to expand.

Other supplies

In the case of supplies such as bottles and packaging, Winery #14 tended to use a local agent or distributor rather than buying or importing direct, though the winery purchased corks from Portugal and oak barrels from France. Purchase of bottles had changed from year to year, and fluctuated depending on the exchange rate, and the supply conditions. When the Australian manufacturer and its New Zealand subsidiary decided not to make a bottle called French Green the winery was forced to import them. Currently the winery imported 50% of its bottles and sourced 50% locally. The winery's packaging was all made in New Zealand and all the cardboard packaging and labels were printed here. Processing equipment came mainly from overseas, either Germany or France, via importers. Most of the bottling equipment was Italian and was all bought via an importer, since importers usually provided back-up service. Table 4.2.14.1 summarises Winery #14's relationships showing the importance of internal linkages and the dependence only on grape growers.

Table 4.2.14.1 The nature and functions of Winery #14's relationships

Identity	Number	Nature and function of relationship	Comments
Grape growers	6	15 year contracts *Dependent* *Critical resource*	Very long for industry, had some since inception but not taking on any more.
Glass	Unknown	Import and local purchase *Connected* *Ancillary resource*	Indirect through agent
Other suppliers - corks, tanks, machinery, sprays	Many	Import through local agent *Connected* *Ancillary resource*	Complicated from overseas, simple are locally sourced
Wine Institute	1	Compulsory membership *Committed* *All indirect functions*	Gripes about fees, office holder
Other wine companies	Many	Ownership *Internal*	Frequent and chosen interaction
Distribution cos	Many	Most through parent plus one local *Internal* *Critical activity*	Ownership and close partner, All local retail done by distributor
Agents	Many	Through parent *Internal* *Critical activity*	

Industry context

In terms of the industry, Winery #14 considered that the New Zealand industry was expanding quite rapidly, with new vineyards being planted, though not at the rate it had in the past. Those past large plantings were about to come into production. Phylloxera had slowed it down and had made expansion much more expensive, but there was a lot of production yet to come on stream. Markets had to be secured in which to sell this new production, thus the industry had to expand its overseas horizons, into markets beyond the UK to the US, Germany, Australia etc. As for the structure of industry, there was room for specialist, small producers, but this was where much change was likely:

> I wonder about the future of some of those operations. You know the likes of the grape grower that's aspired to have his own label. Sends his grapes down to Vintech and employs a consultant in the vineyard, gets a designer in and they're in the wine business (Winery #14, text unit 153).

The issue was not the competition these small start-ups or the grower with his own label could cause Winery #14, but how long the new entrants could survive the fierce rivalry without the infrastructure of a complete wine company. The interviewee thought that while the country had been in a state of significant under-supply of grapes, it had been easier for those people to enter the market than it might otherwise have been. The interviewee had considerable experience of the New Zealand and other wine industries. When (s)he had arrived at Winery #14, it had been 'just paddock at that stage'. So (s)he had seen the region and the industry change quite significantly. There had been increased planting, an increase in companies and New Zealand wine had become known internationally.

> I mean the year we were planting our grape vines the government was paying $5000 an acre for people to pull out their vines. So it's gone from a pretty depressed, an oversupplied, unknown industry to a world recognised producer within 10 years, it's staggering, really. So that's a pretty major change, a very significant change, and with it there's come the proliferation of other people looking to be involved (Winery #14, text unit 159).

The stories from this interview covered:

1. International ownership

There was much discussion of various aspects of operations, management and linkages within the group of companies of which Winery #14 was a part. The parts were autonomous but clearly connected. The winery was clearly a New Zealand company and its role was clearly defined in terms of that winemaking location and style.

2. Paddock to World recognition

The interviewee had seen the development of the industry from the beginning of its modern growth from the mid 1980s onwards. (S)he saw the development of the industry from the point of view of green field investment rather than from its traditional historical roots.

3. Few personal links

The interviewee mentioned few personal links outside the parent company network, with the exception of the local distributor, which was embedded in a number of relationships in which Winery #14 was also involved. Table 4.2.14.2 gives an overview of the levels of and outcomes from Winery #14's relationships.

Table 4.2.14.2: Relationship levels and outcomes for Winery #14

Level	Actor Bonds (people)	Activity Links (value chain)	Resource Ties (resources)
Micro (firm)	- President of 80% owner parent company by name. - Visiting winemakers and staff.	- UK and US distributors. - Local distributor. - Other sibling subsidiary companies. - Other Australian and NZ wine companies.	- Parent company and owners provide capital. - 6 grape growers but taking on no more.
Strategic outcomes: Internal growth based on ownership but with resource leverage in grape supply, though new growth all internal.			
Meso (relationship dyad)	- Managing Director, 20% owner, mentioned by name. - Head of an Australian subsidiary with local NZ link named.	Internal to the parent co.	Overseas and local suppliers.
Strategic outcomes: Long-term trust based relationships with growers for security and quality of supply. Strong internal links.			
Macro (industry/ environment)	None	Formal through the UK Guild	Informal through the Wine Institute
Strategic outcomes: Brand quality and reputation built on NZ and region location			

Case #14 Summary

This company interacted in a complex network of vertical and horizontal linkages, most of which were related in some way, either through direct or indirect ownership links, to the parent and holding companies. The relationships were not expressed by the interviewee in terms of internal hierarchy, structures and formality, however.

4.2.15 Case #15

The company

A regional subsidiary of one of the larger New Zealand wine producers, Winery #6, and a sibling of Winery #13, Winery #15 was an autonomous production unit of a wholly-owned subsidiary of an international liquor company. The interviewee expressed the view that Winery #15's ownership by a large liquor industry parent meant that its operations were 'quite different from the family-owned companies'. In terms of connections with the parent company, it was easy to forget that Winery #15 was part of a large corporation until it came to the budget or end of year since they had very little interaction. The head office had more to do with the parent but the subsidiary tended to run itself and do its 'own thing'. Thus the subsidiary had quite a lot of autonomy from head office but not enough according to the interviewee. Problems had recently been caused by a gap in communications caused by a vacancy at head office which was responsible for all the winemakers and vineyard managers, who reported directly to that person and who made the link between the bottling line, the wineries and sales and marketing. Visits from head office were rare, perhaps once or twice a year.

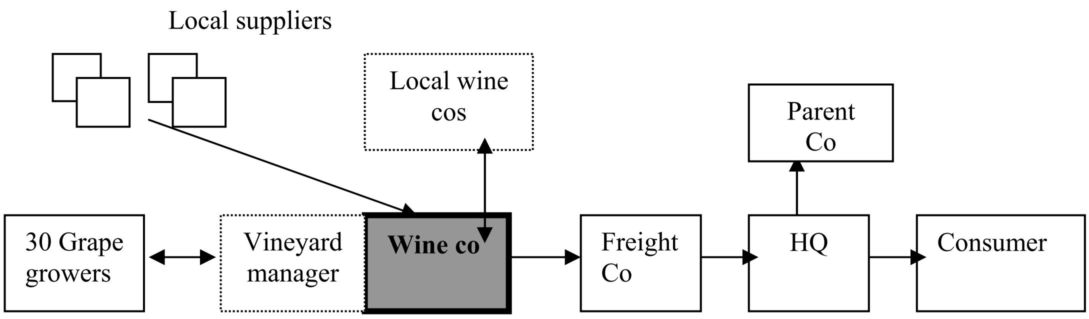
Winery #15 was expected to put on a social function for growers every year and head office representatives were supposed to attend. The interviewee regretted that often it was only when a grower complained that somebody from head office came to talk to them. In terms of relationships and contacts with other colleagues within the company in other wine growing regions, again there was little interaction. They met once a year for a formal tasting and held a pre-vintage and a post-vintage meeting and then they also met at the NZSVO[15], coming into contact about half a dozen times a year in total. This the interviewee felt was not enough as it was important to know what the other subsidiaries were doing.

Company strategy

This winery's contribution to strategy was that of a local production unit. It produced regional products with a reasonable degree of autonomy, ranging from commercial wines through to premium, possibly super premium wines, which fitted within its parent's wider portfolio of product offerings.

Key Relationships

A value system diagram gives the key relationships for this winery and shows a corporate divisional structure. An account of the key relationships identified in this case follows it.



Freight

Winery #15 was purely a production facility and bulk wine was freighted by road to Auckland for bottling. The winery had used a local tanker company for many years and found it very reliable. The interviewee was very thankful that the winery did not have to use rail, with which it had had many problems in the past, such as dirty tanks and tanks not arriving on time.

[15] New Zealand Society of Viticulture and Oenology.

Grape growers

Winery #15 had about 30 growers on a contract basis and a vineyard manager managed these relationships. Growers were paid on a bonus system based on the quality of their grapes. Of those 30 growers one or two were new, and some of them had been with the company for 15 or 20 years. The decision on which growers to use was based on what grape varieties they were growing and the volumes required. If a grower came from the open market with no contract Winery #15 might buy from them depending on what grapes the grower had to sell. The company also had to look at the tonnage the winery could handle since there was a space limit to what it could take. If the winery lost a grower one year to another company or he just decided to pull out of grapes because they were not economical, Winery #15 would possibly pick up another one. That decision was reviewed every year. The company helped some good growers who were keen and interested in replanting with newer grape varieties by selling or giving them (for later repayment) its own grafted vines at a special price. Growers did sometimes leave the company and take their grapes elsewhere. Some grew a number of varieties and sold them to different wineries so would be contracted to a number of wineries, usually based on price.

Depending on the season, the vineyard manager visited the growers regularly, talking over problems, sampling their grapes for them, checking the maturity of the crop and giving advice on spraying. As part of the bonus system growers had to have a clear spray schedule and this was checked. There was competition for particular growers who were well known to be good and Winery #15 would pay those growers special prices sometimes to stop others getting their grapes. Each grower was treated individually although head office was not in constant negotiation. Contracts were negotiated every year and while in the past the negotiations had been carried out by the vineyard manager, this role had gone back to head office so the vineyard manager had no formal role in that process but would make recommendations. (S)he would give advice as to which were the better growers but the subsidiary could take it no further than that, since: 'When it comes down to the dollars then head office decides!' (Winery #15, text unit 72).

Agents and distributors

Winery #15 had little to do with this end of the business although the winery regularly hosted visits from overseas agents and distributors. The parent company had recently brought out most of its agents to New Zealand and flew them round the country giving them tours and tastings. The interviewee felt that these visits were important to get direct feedback from the markets. The winery also hosted visits from overseas winemakers. Whilst these gave exposure to the company it was difficult to tell what the winery got out of such exchanges, since there were 'no major secrets in the winemaking industry'.

Other wineries

The wineries in the region held a monthly wine tasting group. It was open to anyone working in the wine industry in the region, and the majority attending were winemakers but some cellar hands were interested. It was very much a social event. The interviewee claimed that there was not a lot of interaction among the local wineries and then went on to describe three ways in which they did. The wine companies were all very good at helping each other out: they were quite open and friendly about lending material, equipment etc if someone had been 'let down or something breaks down'. The local industry also worked in a co-operative group which had been set up to promote the region's wineries and the winemaking region as a whole. Winery #15 felt that it had to be part of it because it was the largest winery in the region although it did not get much direct benefit from it since the winery was not open to the public. In order to promote the region, the winery put a lot of money into the group for little direct return. The 20 wineries in membership paid a fee and there was a committee which held monthly meetings and organised a large annual promotional event on which the wineries worked together. A further element of co-operation came about through both of these groups. The wineries produced a charity batch of wine of 1500-2000 litres blended from contributions from all the wineries called the '*assemblage*'. The wine generated income as it was sold under tender to the highest bidders in cases of 6. Winery #15 sold vine grafts which generated income for the co-operative group and also donated wine to the '*assemblage'*.

Other suppliers

There was some tension here between parent and subsidiary requirements. During the previous season supplies ordering had been done through the company's chief accountant at headquarters, based on best prices and (s)he had not committed to anything until (s)he got all of the quotes in. Purchasing decisions had been made purely on price whereas the interviewee questioned whether (s)he would have made the same decision, observing that (s)he might have used other means such as quality of service and reliability. For supplies such as barrels, Winery #15 used the two main New Zealand agents, Esvin and Carter & Associates. Both Auckland-based companies, they acted as agents for a lot of French and America coopers and the company had used these suppliers for a number of years. Winery #15 placed very large orders with them once or twice a year, before vintage for barrels, oak chips, yeast supplies and different types of earth and other materials used in the winery.

Table 4.2.15.1 summarises Winery #15's relationships, showing internal and some connected relationships, with one set of dependent ones with grape growers.

Table 4.2.15.1 The nature and functions of Winery #15's relationships

Identity	Number	Nature and function of relationship	Comments
Grape growers	30	Short-term contracts *Dependent* *Direct: critical resource*	Some new, some 15-20 years, bonus for quality
Vine nurseries	Unknown	*Internal*	Subsidise new plantings by growers
Glass	None named	HQ *Internal*	
Other suppliers - corks, tanks, machinery, sprays etc	Many	All major ones named *Connected* *Direct: ancillary resource*	Stable and valued locally
Wine Institute	1	Compulsory membership *Committed* *All indirect functions*	Referral of international visitors
Other wine companies	Many	Informal co-operation *Connected* *Social function*	Social.
Hawkes Bay Vintners	1	Active member *Connected* *Social function*	No real benefit
Freight	1	Local, very long-term *Committed* *Direct: critical activity*	Reliable, loyal
Distribution cos	None named	HQ *Internal*	Visits to winery
Agents	None named	HQ *Internal*	Visits to winery

Industry context

Within the industry, exchange of technical information took place in such fora as the NVSO annual conference. This was the only time that the whole New Zealand wine industry got together in a room, with the exception of a purely social event, the field days which was run by the Wine Institute. The NVSO was a very useful event to overcome isolation and for personal development:

> That's why I like going just to hear what's going on in the wine industry. See faces and talk to people and that why I think it's important to go. Otherwise you would just drop out of the industry totally if you don't attend that sort of thing so I think it's a crucial thing (Winery #15, text unit 143).

The interviewee had studied at Roseworthy College in Australia. The local polytechnic in the region offered a one- or two-year diploma course that could be cross-credited with another Australian university, Charles Sturt. Whilst some companies had taken people on and sponsored them through Roseworthy this was not something one saw often. Winery #15's parent had recently sponsored a person from the Auckland bottling plant to complete his degree extramurally through Charles Sturt. That person was now bonded to the company for a time. Few companies within the industry were prepared to do this and so training was largely through personal effort, although the interviewee thought that the NZSVO was funding a scholarship. Companies were willing to take people on for work experience but not pay for University degrees. Apart from the post graduate diploma at Lincoln, if one wanted to get tertiary qualifications one had to go through Australia. This interviewee's stories may be summarised as:

1. Not much co-operation

The interviewee said that there was not much co-operation between the wineries in the region and then went on to describe a great deal of local co-operative interaction in terms of resource sharing, joint promotions, co-operation on local regional development and information sharing. It may be that this was because of confusion between formal and informal co-operation.

2. Visitors

The interviewee mentioned visitors a good deal. This was a feature of the wineries which were subsidiaries of the larger companies. They had to be part of the local scene and added local colour for visitors. (S)he referred to the benefits that these visitors brought: learning from overseas agents about markets and at conferences from other winemakers, and promoting the company to agents and visiting winemakers. The visitors might also have helped the sense of isolation which was the other side of the coin of autonomy from head quarters.

3. Central control

The interviewee questioned purchasing decisions made at head quarters based on accounting criteria rather than quality of service by suppliers. There was also clear control from the centre of contracts with grape growers. These two aspects removed autonomy from the local subsidiary and may also have added to its sense of isolation. Table 4.2.15.2 gives an overview of the levels of and outcomes from Winery #15's relationships.

Table 4.2.15.2: Relationship levels and outcomes for Winery #15

Level	**Actor Bonds (people)**	**Activity Links (value chain)**	**Resource Ties (resources)**
Micro (firm)	- Only one person named in the company, the export manager, not MD. - Vineyard manager. - Chief accountant. - Other suppliers named.	Agents and distributors operated by HQ, visits to vineyards	
Strategic outcomes: Internal central control of all but grape supply, which is leveraged.			
Meso (relationships/ dyads)	Owner of freight company's name mentioned.		Grape growers – one mentioned by name.

Strategic outcomes: Minimal capital outlay, importance of long-term trust based relationships with transport and grape growers.			
Macro (industry/ environment)	Lots of people named in the local industry.	Many other wineries mentioned.	-Wine institute mentioned. -Wine education establishments in NZ and Australia. -NVSO (professional body).
Strategic outcomes: Regional location for branding, informal local links and visitors.			

Case #15 Summary

The relationships identified, which are minimal, would seem to reflect the interviewee's own personal view rather more than in other cases. This may be due to this person's relative youth. Technical issues and interactions which reinforced involvement in the industry were important as were relationships with grape growers, although the interviewee was at one remove from those.

4.2.16 Case #16

The company

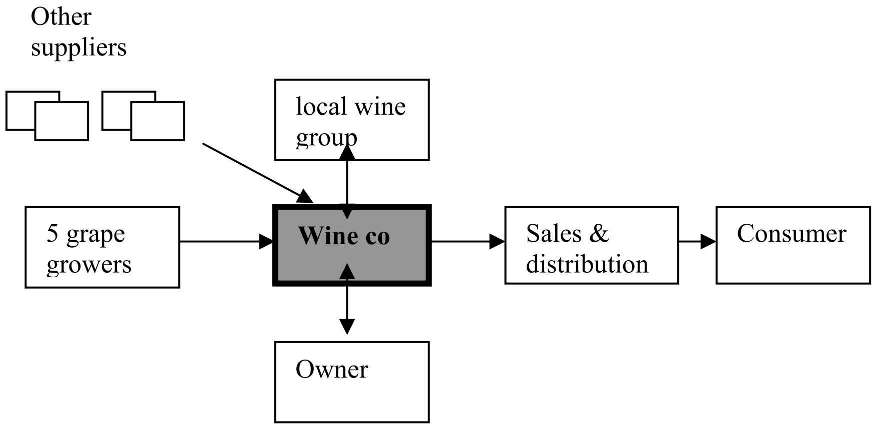
A wholly New Zealand-owned independent company founded in 1979, but built upon a long-standing winery, this medium-sized winery was part of a complex organisational structure about which little can be described without disclosing the company's identity. The interviewee had been part of the winery since its modern inception, having worked her/his way up through the organisation to become winemaker and now also production manager. The company had recently undergone some major changes as a result of a strategic review and planning process, with new roles and senior staff bringing in new skills to the traditional winemaking business. As the interviewee had only recently taken on the role of production manager (s)he was not able to comment on sales and distribution.

Company strategy

Winery #16 was hardly involved in export and so did not yet have that perspective to its strategy. It had developed only two overseas agents and exported very little. The focus seemed to be on producing a few ranges at the lower to middle ranges for the domestic market, basing its branding on its very long-standing name and recognition as a solid, reliable producer in the marketplace, and with its own sales representative.

Key Relationships

A value system diagram shows the key relationships for this winery in a simple set of external interactions. An account of the key relationships identified in this case follows it.



Grape Growers

The most important relationship identified by the interviewee was that with its grape growers. Winery #16 bought in about half of its grapes and was planning to buy an even larger proportion as production increased. The emphasis was on sourcing quality grapes. Winery #16 did not sign any contracts with its 5 growers, believing that it was easy for grape growers to sign these contracts but very hard to get out of them. The interviewee had seen the larger wineries pull out of contracts and leave growers in the lurch since the contracts seemed to put the onus on the grape grower. Thus the key was to establish a strong relationship with growers and that the winery's growers were free to leave and sell to another customer and that both parties had freedom to pull out if required. The winery had recently ended a relationship with a grower. It had been buying grapes from him for 6 years but felt it was not getting the quality for which it was paying and the winery ended that relationship. The interviewee had not found this easy. Although there was no contract the purchasing had been based on a strong mutual understanding that this was a long-term arrangement so it had been difficult to actually break that tie. Most of the growers had been with the company since 1991. The interviewee talked positively about growers and felt that the winery was paying a good rate for their grapes. Further, the winery had hired a viticultural consultant to assist in quality development, to which the growers had responded very positively. (S)he recognised that it was easier to take advice from a third party. This long-term arrangement had been made on the advice of a trusted industry colleague, after a trial period. The winery had also recently acquired a new grower who had stopped selling to another winery. That relationship had broken down through a problem with the viticulturalist of the other company trying to lower the price paid to the grower too far.

Technical issues and interactions which reinforced involvement in the industry were important as were relationships with grape growers, although the interviewee was at one remove from those. Winery #16 saw flexibility as fundamental to supply arrangements even if the approach seemed contradictory in places. The interviewee stressed trust as a basis for business relationships in general but was comfortable playing a long-term supplier against a newcomer, keen for the winery's business. Whilst an incumbent supplier may get complacent, a trust-based approach would perhaps be more open and direct. It was difficult to gauge the size effect here ie it may have been an account too small to worry about.

In terms of future development, Winery #16 intended to buy more grapes and planned to do this by finding new potential grape growers to plant vines for production and by sourcing from existing growers. The interviewee had an idea of where (s)he might go for these, using existing contacts and growers' contacts. It might possibly buy grapes in other regions also. Winery #16 was involved locally in the Vine Improvement Group of the Grape Growers' Association particularly in a sustainable viticulture trial involving two groups of about 15 grape growers, which held meetings every two or three months at which they assessed themselves on spray usage and pest control. Above all, the interviewee stressed the importance of local social connections in forming relationships:

> A lot of the relationships you look at the way they begin and it's just through...people I've know and that sort of thing, mostly people I've known. Like with one grower we had for about 5 or 6 years, this fellow's wife is a friend of my wife's so that started like that (Winery #16, text unit 103).

Glass

Glass was the next largest purchase after grapes. Although in the past the winery had bought its bottles from ACI, since it had become viable to import directly Winery #16 now bought from a supplier of imported glass. It was based in Auckland but the winery had negotiated cheap transport of the bottles to the winery door. Winery #16 had recently given ACI the opportunity to quote for the business but it had declined. It now only used ACI when it could not get bottles from anywhere else. The winery also now bought re-cycled bottles (washed only) which were even cheaper: at 10% cheaper than imported glass it was thought to be 25% cheaper than the ACI glass. The recycling company only had a certain availability so the interviewee was in contact with that company all the time to see what they had available.

Barrels

Also a significant purchase, barrels suffered from quality variability. The winery had two or three suppliers on which it concentrated and those were suppliers with whom, as with the grape supply, it was not just the right price but the quality of the product it was getting from them. The winery tended to stay with suppliers until there was a problem. The winery had placed a significant order from one of the barrel suppliers on the very strong recommendation of a winemaking consultant who had done some work for the winery. The interviewee based the decision on trust and personality, on which (s)he relied very strongly.

Corks

The next important purchase was corks and traditionally there were two supplying companies, a larger one, Carter and Associates and a smaller one, Esvin. The company now had a policy of buying equally between the two suppliers and the two tended to balance each other out in terms of long-run quality. Both parties realised that the winery was buying from both companies and the interviewee felt that (s)he thus got a better service.

Packaging

The winery had recently almost changed its supplier of cartons which was another large input. Kiwi Packaging had had its business for some years and the other main player, Carter Holt, had offered a very good deal. The interviewee was loathe to change unnecessarily but the winery did a trial with some of Carter Holt's cartons and decided to change. It gave Kiwi Packaging the opportunity to re-quote on its prices. Not appearing to take it seriously it was only when the supply arrangement was about to be cancelled that the incumbent responded and came up with an even better price than the new supplier. Going on past service and quality the winery decided to stick with Kiwi Packaging. This took about three months to resolve and the interviewee had learned the complexity of such change which (s)he thought should not be undertaken lightly. Table 4.2.16.1 summarises Winery #16's relationships, showing one dependent set of relationships with growers and the rest connected with committed industry links.

Table 4.2.16.1 The nature and functions of Winery #16's relationships

Identity	**Number**	**Nature and function of relationship**	**Comments**
Grape growers	5	Close trust-based *Dependent* *Direct: critical resource*	Flexible, no contracts
Glass	3	Ongoing *Connected* *Direct: ancillary resource*	Split, balanced supply
Packaging	1	Long-term *Connected* *Direct: ancillary resource*	Recent challenge led to re-pricing
Other suppliers – barrels, corks, tanks, sprays machinery	3+	Ongoing *Connected* *Direct: ancillary resource*	Split, balanced supply
Wine Institute	1	Compulsory membership *Committed* *All indirect functions*	Useful information
Other wine companies	Many	Many channels for informal co-operation *Committed* *All indirect and social functions*	Social plus technical

Industry context

The interviewee felt that there was a cynical attitude amongst some wine companies towards grapes growers who saw grapes growers as greedy and the winery's job to get the grapes at the lowest possible price. This discouraged growers. The interviewee also thought that being a smaller winery in its region meant that (s)he could visit growers and have a closer relationship than the larger Auckland-based wineries, which (s)he saw as somewhat isolationist. In the past the industry had been friendly and that whilst that was still a feature, it had become more competitive, was becoming more sophisticated, and those links were slowly drifting away. (S)he thought that in Auckland a lot of the winemakers from the different wineries were quite close friends, but in the regions (s)he felt that some of the larger companies actively discouraged their people from having any contact with other winemakers. In its region Winery #16 was involved in a number of informal groupings with local wineries for tastings and joint promotional activities. Thus the local industry had quite a strong association amongst the winemakers, who were all on quite friendly terms, although (s)he wondered whether that too was slowly starting to disappear or fade away. Whilst purely social, the tasting group had a developmental role in maintaining one's palate and keeping an open mind about new wines. The stories from this interview were:

1. Purely social

A local wine tasting group, though purely social in intent, met a number of needs in terms of technical skills, new ideas and the development of a local collective view of the industry.

2. Growers' freedom

This interviewee believed that some wineries treated grape growers badly and stressed the importance of both parties feeling that they could exit relationships without the need to break contracts. This view was maintained on the basis of interactions with only 5 growers and so arguably might change if the firm's interactions grew.

3. Balanced supply

All inputs other than grapes were purchased on the basis of split or balanced supply so that there was flexibility and no over-reliance on one source. Table 4.2.16.2 gives an overview of the levels of and outcomes from Winery #16's relationships.

Table 4.2.16.2: Relationship levels and outcomes for Winery #16

Level	Actor Bonds (people)	Activity Links (value chain)	Resource Ties (resources)
Micro (firm)	- MD mentioned by name, new strategy implementation.	None mentioned.	New growers to be acquired by word of mouth.

	- Viticultural consultant (validity of third party expert). - Previous manager alluded to negatively.		
Strategic outcomes: Strategy very much evolving at this stage but with leverage of grape resource.			
Meso (relationships/ dyads)	Local social ties very important, wife's contacts mentioned.	None mentioned.	- Grape growers on social ties. - Barrels on recommendation. - Corks –long-term suppliers. - Bottles – mixture of new and old links. - Packaging - long-term supplier.
Strategic outcomes: Long-term trust-based relationship with growers and more planned through word-of-mouth.			
Macro (industry/ environment)	None mentioned.	None mentioned.	- Wine Institute useful for information sharing and dissemination. - Leader of VIG trial named.
Strategic outcomes: Reputation, branding and learning from early industry involvement.			

Case #16 Summary

In summary, flexibility was fundamental to this winery's supply arrangements although the approach was contradictory in places, especially between grapes and other inputs. The interviewee stressed trust as a basis for business relations and yet was quite comfortable with playing a long-term supplier against a newcomer, keen for the winery's business. Whilst an incumbent may get complacent, a trust-based approach would surely be more open and direct? This interviewee may not have been completely comfortable as (s)he wanted the tape recorder turned off a number of times in order to share insights that (s)he did not want recorded.

4.2.17 Case #17

The company

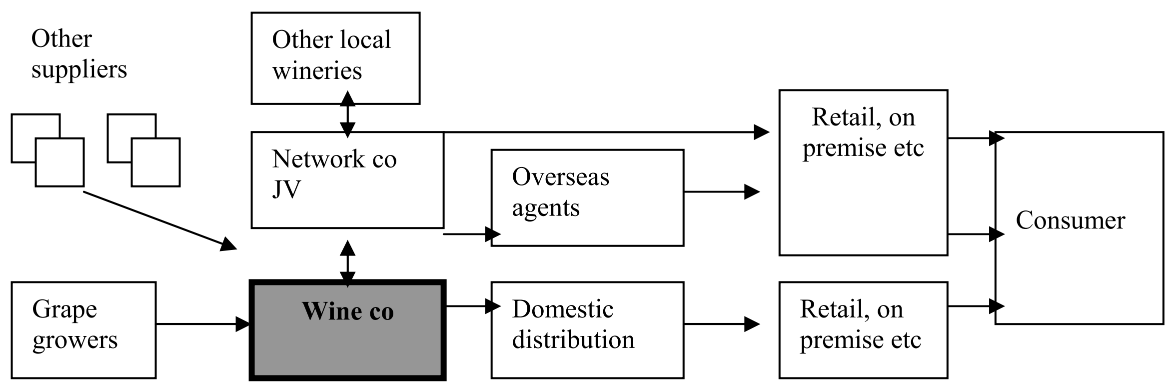
A younger, independent family-owned, medium-sized winery established in 1984, with siblings sharing roles and responsibilities within the company, this winery was a pioneer in its region and saw itself as maintaining a leadership role in its locality. The company aimed to grow 50% of its own grapes and buy in about 50%, although this could be 25/75 in a poor growing year. It owned land in its own region and another wine region, where it had recently established an alliance with a financial backer which did not have a traditional involvement in the wine industry. The company had a long-term goal of owning its own vineyards but did not have the necessary resources to do so. The interviewee had a cynical edge to her/his view of relationships. The winery had two or three companies which supplied products such as corks, but when these suppliers dropped their prices, the interviewee questioned whether the suppliers had previously been honest in that relationship.

Company strategy

Fiercely independent but using formal alliances in several places, this winery was strongly export focused, and currently exported over one third of its production. It produced a number of wines in the mid-range based on quality and a unique style with local branding of region, and used a variety of channels, ranging from direct to retail and on premise sales, through a number of overseas agents and a large national scale domestics distributor.

Key Relationships

A value system diagram illustrates the key relationships for this winery and shows a strong focus on channels, especially through a local sales and marketing joint venture. An account of the key relationships identified in this case follows it.



Growers

The interviewee expressed very strong negativity about grape growers, speaking of growers who had 'betrayed the wineries' in not adhering to contracts:

> I don't think there has been any contractual loyalty by any of these people (Winery #17, text unit 10).

The winery used only short-term contracts of two to three years maximum. The winery had had a bad experience which had coloured its view of growers and contracts. The winery had made a wine from the grapes of one grower and had branded and marketed it. The grower then started up a winery under the same name. The interviewee was bitter:

> I had no thank you, I had a written 5-year contract which still is valid and has not been honoured, so that's a lesson learned. I don't want to put any grower's name on my product or his vineyard location because I don't feel I get the reward for it. I'm penalised by getting no crop even under a written agreement (Winery #17, text unit 34).

Legal redress for broken contracts was only open to the larger wine companies. The interviewee put the problem in terms of growers being stuck in a commodity farming mindset and not knowing:

> what it means to be a marketer of an international commodity in the luxury end of the consumer spectrum rather than any day to day necessity (Winery #17, text unit 10).

The interviewee had basic problems with the grower/purchaser model: the winery had to pay for the grapes but would not be paid for the wine for quite some time. (S)he had marketing plans but still had to finance a lot of stock levels. (S)he also had problems with the nature of the grape growers. Local growers were not 'the solid financial still well-off farmers diversifying': they were more likely to be 'opportunists' who wanted initial help to gain knowledge but then wished to be in charge of their own destiny. They were not happy just being a grower, and doing their best and, above all for the interviewee, did not understand the wine company's problems:

> if you look at your supplier grape grower his problem stops at the gate, his happiness is achieved when the money is banked and the interest in what's happening from there on doesn't exist. His worry is then the weather and the new season and getting the pruning gangs together (Winery #17, text unit 28).

The interviewee saw grape growers as farmers who hadn't done well with what they had previously farmed and so they looked at other opportunities. They wondered whether to farm deer, or grow grapes or pears. Grapes were purely a cash crop to them, an alternative land use. New Zealand did not yet have a wine culture.

Other wineries

Winery #17 was a member of a Tradenz sponsored sales and marketing network – a strategic net - of 5 wine companies in its region. The interviewee was positive about the operation and the benefits, seeing it as a pro-active grouping with equal financial commitment as well as equal benefits in relation to size for members. The key was openness and commitment and using a collective approach to get maximum value out of joint promotions, sales etc. The 5 companies were equal shareholders and the network's revenue covered costs plus a little profit for the running of the company. It followed up joint approaches, employing a part-time general manager, and having a formal company structure. It had successful export markets such as Fiji and the Cook Islands and a direct link through the general manager to Tradenz. In that respect the grouping bypassed the Wine Guild and the Wine Institute, believing that a normal flow of information from an industry office 800 kilometres away was not a realistic expectation. This allowed the group to be responsive to inquiries. The success of the network was measured on sales. The interviewee believed that taking a group approach to exports gave a better product range than just one company with a portfolio and this 'one-stop shop' was where its advantage lay. Overall exposure was increased and, with other export and promotional activities planned, Tradenz saw it as a great success. The interviewee thought that it would grow in autonomy in the future.

Agents and distribution

Winery #17 did its own marketing locally and for domestic sales it used an Auckland-based distributor on a nation-wide scale, based on a short-term contract. This was a new relationship, a previous arrangement having been terminated because of a conflict of interest. The previous distributor was also associated through ownership with a company which Winery #17 felt was in close competition with its own sales. Since the change sales had doubled. The interviewee pointed out that these relationships were constantly under review, and (s)he did not expect to find the ideal distributor and stick with it for the rest of the company's future. Companies outgrew distributors or distributors outgrew companies as they had due to mergers or greater demand for the product. The interviewee thought that what was typical of New Zealand was large conglomerate companies being involved from the vineyard winery base right down to owning the retail stores and obviously trying to maximise value along the way.

Export brought a change in relationships with suppliers, which needed to understand the business, for example, appreciating the requirement to give payment terms to overseas export customers (usually 90 or 120 days) which local suppliers could not expect. But there were options, opportunities in modern banking structures which could accommodate suppliers and provide different structured funding for export orientated companies. The company exported predominantly to the US, Australia and Germany. Market servicing was volume-related so the main players got personal visits once or twice a year from a company principal The winery usually appointed importers to the country and they then worked with sub distributors or distributed themselves depending on the country size. The winery had recently taken on a new agent: a New Zealander who based himself for 6 months of the year in Europe and with whom one could contract for a two year period, where on achieved sales he got a 3 or 5% commission. This had been his initiative and he represented 4 or 5 companies which had the same market intentions. Table 4.2.17.1 summarises Winery #17's relationships showing only connections and no commitment to any.

Table 4.2.17.1 The nature and functions of Winery #17's relationships

Identity	**Number**	**Nature and function of relationship**	**Comments**
Grape growers	Few	Short-term 2-3 year contracts *Connected* *Direct: critical resource*	Distrustful
Glass	2	Monopolistic power *Connected* *Direct: ancillary resource*	-
Other suppliers - corks, tanks, machinery, sprays	Several	*Connected* *Direct: ancillary resource*	Distrustful

Wine Institute	1	Compulsory membership *Connected* *All indirect functions*	Strongly against
Other wine companies	4	Wine network grouping *Internal* *All indirect functions*	Formal company structure
Distribution co	1	New national scale *Connected* *Direct: critical activity*	3 months notice
Agents	Various	Changing *Connected* *Direct: critical activity*	Use of sub-distributors

Industry context

Turning her/his attention to the local region, the interviewee criticised the local city council for not supporting local wine companies, for example awarding a local function centre contract to a winery from outside the region. (S)he felt that local councils should be able to charge local industry taxes but give services or incentives back for those taxes in order to stimulate or penalise industry in their district. This budgetary recognition would give companies more power.

The Wine Institute was one of the last statutory institutions in New Zealand and the interviewee felt that it was 'on its way out'. (S)he identified dissatisfaction at the grass roots with the fact that membership was compulsory and pointed out that the large companies, which were the largest contributors to the Wine Institute, did their own lobbying in Wellington. Above all (s)he felt that the industry body had no inclination to change anything.

In terms of the industry culture, the interviewee at Winery #17 stressed that the wine industry was a complex business and cited the case of someone who was now selling his grapes again instead of making wine in a partnership with a winery. The interviewee positioned the problem as cultural: a clash between a 'down to earth European approach' whereas the 'English mentality is glamorising it (the wine industry), putting it on a pedestal'. This had resulted in the rapid growth of the industry and grape growers wishing to forward integrate and produce their own wine. This (s)he thought might be slowing down and reversing as people exited the industry or parts of it or amalgamated with others. (S)he felt that players entered an industry based on diverse motivations but some became disillusioned. In summary, the stories from this interview were:

1. No contractual loyalty

The interviewee was very bitter about broken grape contracts and had no trust in these relationships. This was based on experience and a view of grape growers as farmers rather than understanding the wine industry.

2. *Wine culture*

Neither the country nor the industry had a true appreciation of a wine culture in the European sense. The interviewee made a number of comments about the local beer drinking lack of sophistication even to the extent of saying that despite growing for them for 10 years, growers still could not pronounce 'pinot noir' correctly.

3. *Network enthusiasm*

On a more positive note, the interviewee was very enthusiastic about the Tradenz sponsored export network of which the winery was a member. There was no discussion about the merits of co-operation itself, this was purely a practical way of pooling costs and selling more. Table 4.2.17.2 gives an overview of the levels of and outcomes from Winery #17's relationships.

Table 4.2.17.2: Relationship levels and outcomes for Winery #17

Level	**Actor Bonds (people)**	**Activity Links (value chain)**	**Resource Ties (resources)**
Micro (firm)	Siblings mentioned by name and role in company operations.	- Local wine JV/network benefits and companies but no personalities involved. - Land in another region managed under contract.	Grape growers show no loyalty, had bad experiences, use only short term contracts you can't rely upon growers.
Strategic outcomes: Complete internal control except for formalised market-based volume related relationships.			
Meso (relationships/ dyads)	- Siblings mentioned - Own label grower. - Grower who went back to growing.	Old and new distribution companies named.	Avoidance
Strategic outcomes: Avoidance of relationships except for market based ones.			
Macro (industry/ environment)	- General manager of network. - People & experiences mentioned but no names.		- Wine institute. - Other, large wine companies mentioned by name, negatively.
Strategic outcomes: Independent, avoidance of joining, though regional leadership.			

Case #17 Summary

Winery #17 avoided relationships and made many cutting remarks about others in the industry (a bad day or a jaded character?) although (s)he was very open and sharing about her/his opinion. (S)he had had bitter experience and would have preferred not to have to deal with some of the relationships the winery had. There was even a remark about 'you come from Auckland but we won't hold it against you! The interviewee focused in channels, however, and was positive about its joint venture net in this area of activity.

4.2.18 Within case conclusions

The above accounts at the individual case level provide a detailed and rich picture of different approaches to the use of relationships in strategy, ranging from Winery #2 which was aiming for complete independence in grape supply, through the large wineries such as #6 and #7 which made extensive use of contract growers but focussed primarily on relationships in market channels, through to #10, which used its relationships to help to grow the industry generally in its region. Table 4.3 summarises the strategies followed by the case study firms and how relationships were used in these. The textual and matrix analyses on relationship links and usage set out in this section are reinforced by the text unit counts from the Nud*ist computer-based analysis of each interview shown in Table 4.4, which shows the within case frequency of references to relationship categories. This gives a count of how many times each winery mentioned a particular relationship and may be seen as an indicator of where the interviewee saw her/his company's relationship priorities. A brief summary on each case now follows.

Winery #2 was achieving a strongly differentiated brand position with a clear focus on international markets, downplaying its reliance on growers and emphasising organic, internalised growth through a 'corporate' divisional structure and minimal use of relationships, except to outsource non-core activities, and gave strong emphasis to matters internal to the firm and to contracts.

Winery #3 was differentiating based on consistent quality across a wide range of quality-price/value products. It was highly reliant on committed long-term relationships with growers and was concentrating on building its market position and emphasising distribution also using relationships.

The interviewee at Winery #4 placed much emphasis on relationships in general and on industry cooperation, followed by relationships with growers and packaging because of its high cost. It was achieving differentiation as a known innovator across a wide range of products and performed strongly in domestic and export markets

Winery #5 offered a wide range of quality-value products based on its historical involvement in the industry, had long-term relationships with grape growers and was now focusing on its market position especially in building relationships with distributors.

Winery #6 was the second largest wine company and was highly reliant on its large number of grape growers, hence the importance it placed on these relationships, though using ownership links to leverage other resources and activities.

Winery #7 was the market and industry leader, tightly controlling resources and channels, though the interviewee was difficult to get talking and this showed in the lack of breadth of topics covered. Given its size, Winery #7's focus was on internal aspects of business relationships.

The interviewee at Winery #8 was a hands-on owner and gave strong emphasis to relationships and involvement in many parts of the business and industry. With an award-winning product range, good grower relations were of prime importance to this firm.

Winery #9 was also focusing on its continuing commitment to grower relations and its new distribution arrangements.

The interviewee at Winery #10 put the emphasis on the winery's strategic control and avoidance of relationships, except for contract wine production, and especially on its own internal views and strategies.

Winery #11 was involved in relationships with not only its own growers but growers for other wineries for which it was making wine under contract. The interviewee placed strong importance on relationships with other wineries and industry cooperation.

Wineries #12, 13 and 15 were regional subsidiaries of large wine companies and so placed strong emphasis on relations with local growers. Some subtle differences included that the interviewee at #12 was older and more senior than the other two, hence the broader focus on the industry. The interviewee at #13 was extremely taciturn and the interviewee at #15 was expected to host a number of overseas visitor, hence the its focus on agents. In addition this latter young manager was keenly involved with the local industry – hence the importance of other wineries.

Winery #14 was a subsidiary of a global drinks conglomerate with a mandate to make wine locally. Many relationship were internal to that firm, although the interviewee was a strong industry player too, hence its focus on internal and industry/other wineries.

Winery #16 was extremely dependent on growers and finally Winery #17 was focused on sales and marketing, hence distributors and agents figured prominently.

Table 4.3: Summary of Stage 1 within case strategies

Case	Firm Strategy	Key Resources and Activities	Relationship use
2	Focused differentiation with a strong emphasis on international markets (60% to export and rising) based on branding.	Strongly controlled internally funded growth Clear focus on core activities.	Minimal Reputation effects from early industry involvement.
3	Differentiation over a wide product range with strong focus on quality and competitively priced and high value, exported to 10 countries.	Internally funded growth mainly One joint venture vineyard Resource leverage in grape supply Consistent quality and value proposition.	Extensive Long-term trust-based relationships with grape growers and in distribution Reputation effects from very strong industry involvement Early use of informal shared R&D, innovation and learning.
4	Differentiation with a strong quality focus based on innovation and cost control, exporting extensively.	Internally funded growth Resource leverage in grape supply Controlling cost efficiency R&D and innovation in wine styles.	Extensive Long-term trust-based relationships with grape growers and building in distribution Reputation effects from very strong industry involvement Early use of informal shared R&D, innovation and learning.
5	Differentiation based quality and value at specific prices point in international markets (20% export sales).	Internally funded growth One joint venture vineyard Resource leverage in grape supply Focus on cost effectiveness.	Extensive Long-term trust-based relationships with grape growers Reputation effects from early industry involvement.
6	Consumer-driven differentiation with strong focus on market leadership (no. 2 position in NZ industry), good quality wines with good returns.	Wholly-owned subsidiary of public company Limited capital investment Resource leverage in grape supply Efficiency and effectiveness through tight corporate control especially of purchasing and market activities.	Considerable but targeted on grape resource. Working with contract growers, moving from power based to relationship based Reputation effects from early industry involvement.
7	The largest NZ producer, industry and export market leadership (to 30 countries) position based on economies of production and marketing and wide range of products in every category.	Wholly-owned subsidiary of public company Internal growth based on capital investment Market leadership through economies of scale and scope.	Considerable but targeted on non-core activities and resources. Sole suppliers policy and outsourcing Joint ventures in production and channels Market and channel power Hub firm in regional development.

Case	Firm Strategy	Key Resources and Activities	Relationship use
8	4th largest player in NZ industry, focused differentiation based around award-winning product range.	Mainly internally funded growth IPO for vineyard investment Resource leverage in grape supply Personal and internal control of growth.	Extensive Long-term trust-based relationships with grape growers Reputation effects from very strong industry involvement Early use of informal shared R&D, innovation and learning.
9	3rd largest NZ producer, with a very large range of products, both differentiation and focused differentiation.	Resource leverage in grape supply Mix of internally funded growth, venture capital Joint ventures (in bottling, vineyards and distribution) Innovation through intermediation in channels.	Extensive Long-term trust based relationships with grape growers Reputation effects from early industry involvement Innovator in channels Early use of informal shared R&D, innovation and learning.
10	Differentiation and focused differentiation, based on product uniqueness and branding, lead/hub firm in local industry development with 50/50 export/domestic sales and export % rising.	Strongly internally funded growth Production innovator, efficient asset utilisation Internalisation.	Minimal Strong links with local producers for industry growth eg contract production.
11	Differentiation based on mid-range quality and value with 50/50 export/domestic sales and exports volumes rising.	Controlled internally funded growth Expertise leverage and resource leverage in grape supply Channel control and efficient capacity utilisation.	Considerable but targeted on grape resource and non-core expertise. Multiple efficiency-based relationships eg contract production Long-term trust-based relationships with grape growers.
12	Large regional production subsidiary with wide range of products. Hybrid strategies based on economies of scale in grape growing and centralised production.	Wholly-owned subsidiary of public company Mix of internally funded growth and resource leverage in grape supply Control of quality Economies of scale and scope through corporate control of production and channels.	Considerable but targeted on grape resource. Long-term trust-based relationships with grape growers Export products from own vineyards and domestic from contract grapes.
13	Regional production subsidiary using differentiation with price premium the region commands plus centralised production.	Wholly-owned subsidiary of public company Limited capital investment, cost control Resource leverage in grape supply Efficiency and effectiveness through tight corporate control.	Considerable but targeted on grape resource. Long-term trust-based relationships with grape growers.
Case	**Firm Strategy**	**Key Resources and Activities**	**Relationship use**

14	Ultra premium and super premium producer with strong regional price and quality premium, with 80% of production to exports.	Wholly-owned subsidiary of public company Mix of internal growth based on capital investment and owner's channel linkages plus resource leverage in grape supply Reputation built on regional style and quality.	Considerable but targeted on grape resource. Long-term trust-based relationships with grape growers.
15	Regional production subsidiary using differentiation with price premium the region commands plus centralised production.	Wholly-owned subsidiary of public company Limited capital investment Resource leverage in grape supply Efficiency and effectiveness through tight corporate control.	Minimal Long-term trust-based relationships with grape growers.
16	Differentiation based on location and historical position with very small export volumes.	Internally funded growth Resource leverage in grape supply.	Considerable but targeted on grape resource. Early industry involvement reputation effects Long-term trust-based relationships with grape growers.
17	Differentiation based on location and innovation across a broad range of products, with over 30% of production to exports.	Strongly internally funded growth Joint venture marketing group Reputation built on regional style and quality.	Minimal, except in export channels.

Whilst the differences of emphasis among the Stage 1 interviewees may be merely “front of brain” responses, ie what is foremost for the interviewee at the time, they nonetheless signal significant differences in the uses of relationship in strategies which are further explored in the next section. In order to draw out analytical themes, the study now turns to an aggregated view in the across case examination of the data.

4.3 Exploratory Stage: Across Case Data

Having given an overview of the data from within each case, which emphasised the strategic and relational diversity of the industry, the analysis now turns to the development of an aggregated picture of the links between strategies and uses of relationships across the case industry. The across case analysis uses three major data reduction displays:

- Table 4.4 showing aggregated relationship importance by text unit count;
- Table 4.5 showing case by case relationship categories by text unit count;
- Table 4.6 showing relationship types and their use in formulating strategies;
- Table 4.7 showing strategies realised by firms and how relationships were used within these.

In order to show the relative importance of each type of relationship actor for each firm, Table 4.5 shows how many times each interviewee discussed each particular relationship category (counts of the number of text units coded produced in Nud*ist). These counts were aggregated across all the interviews to produce Table 4.4 below. An example using how often relationships with grape growers, clearly the most important, were mentioned by interviewees, is:

Total number of text units in all the cases mentioning ‘grape growers’ = 247
Text on ‘grape growers’ was found in 15 out of 16 documents, = 94%.
Percentage of text units coded on ‘grape growers’ found in these documents = 11%.

Table 4.4: Importance of relationships as ranked by text unit count

Rank	Relationship	% of total text	Number of text units*	# and % of documents*
1	Growers	11	247	15 (94%)
2	Internal relationships	9	206	13 (81%)
3	Other wineries	7.4	171	12 (75%)
4	Industry	5.7	130	14 (88%)
5	Distributors	5.5	126	13 (81%)
6	Agents	5.4	123	13 “
7	Wine institute	3.5	80	13 “
8	Other suppliers	3	69	12 (75%)
9	Glass suppliers	2.8	65	13 (81%)
10	Packaging	2.3	53	13 “
11	Winemakers	2.1	35	12 (75%)
12	Other services	1	23	5 (31%)
13	Machinery	0.65	15	5 (31%)

* Percentages do not sum to 100 due to possible multiple coding of individual text units.

Table 4.5: Within case frequency of references to relationship categories

Rank	Relationship	Number of text units per case																
		2	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**Sum**
1	Growers	5	19	9	5	13	-	8	10	2	24	27	48	7	28	34	8	247
2	Internal	24	3	1	-	2	8	2	-	27	22	20	14	51	25	7	-	206
3	Other wineries	7	6	5	4	-	-	-	-	8	33	13	11	23	39	17	5	171
4	Industry	12	8	10	11	7	2	7	3	13	8	23	-	15	2	-	9	130
5	Distributors	10	26	5	14	2	-	2	10	11	-	2	-	15	4	2	23	126
6	Agents	3	17	4	6	1	-	5	9	19	8	4	-	4	17	-	26	123
7	Wine institute	11	5	6	3	1	-	3	3	17	6	-	-	11	4	8	2	80
8	Other suppliers	5	7		3	-	-	1	2	4	-	2	8	8	18	6	5	69
9	Glass suppliers	6	18	6	1	1	-	5	2	-	4	4	-	1	2	10	5	65
10	Packaging	2	3	10	1	3	1	6	-	15	4	4	-	2	-	1	1	53
11	Winemakers	4	1	2	-	1	2	1	2	-	-	3	-	3	7	7	2	35
12	Other services	4	-	4	-	3	-	1	-	-	11	-	-	-	-	-	-	23
13	Machinery	4	-	-	-	-	-	1	1	-	-	-	-	4	5	-	-	15
	Sum of text units	97	113	62	48	34	13	42	42	116	120	102	81	144	151	92	86	1343

XX = Highest score for that case

The use of these text unit counts is indicative of the importance or focus within each interview though shortcomings may include: coding errors and the direction the particular interview took – the questioning frame was semi-structured and interviewees took the discussion where they wanted to go, although all were asked all questions.

4.3.1 Overview of relationships and strategies

Table 4.5 shows the prime importance to the wineries of their grape supplies. Table 4.6 shows that for the majority this was secured through relationships with grape growers. The nature of these relationships varied from long-term, formal ones based on contracts, through short-term formality to long-term informal trust-based relationships, with many working with grape growers to some extent, based on varying levels of time-based commitment. A minority of wineries aimed for internalisation of grape production and thus control of supply and quality. The next most important set of interactions were those at the company level for the wineries associated with patterns of ownership and control ranging from independent family-owned and operated businesses through those with some external shareholders to wholly-owned subsidiaries of global drinks conglomerates. Regardless of ownership strategies of either internalisation or relationship-based access to resources were apparent in both groups.

The next most important set of relationships were those with other wineries and within the industry in general. These ranged across many forms of informal co-operation, including friendly help and assistance, socially-based winetastings and sharing of technical and market information and the results of R&D. Most took part, or had in the past, in some kind of industry co-operation, though two wineries, with fiercely independent approaches to strategy, did none. More limited amounts of formal co-operation covered joint ventures in a critical resource area, grapes, or activity area, sales and marketing. Domestic and export sales and distribution were again areas which exhibited internal control and independence, internal/ownership linkages and collaborative long-term trust-based relationships. Finally, relationships with suppliers of ancillary resources such as bottles, corks, winery equipment etc, could be seen as areas of long-term relationships to be fostered, or as short-term transactions or contracts to be reviewed and amended as necessary. These across case themes are now developed in more detail.

4.3.2 The companies and their strategies

Table 4.7 shows the value position strategies pursued by the case firms. Both smaller, family-owned firms and larger public and private firms with corporate structures pursued a strong focus on differentiating products in international and domestic markets. For many the differentiation (across either broad or focused ranges) was achieved through quality, innovation and learning that had developed over the recent historical development of the national industry. The importance to most of industry level horizontal links for these was clear.

Export and domestic marketing strategies in most wineries involved producing wines in the premium and mid-range categories with price premiums based on the New Zealand reputation for quality, with a strong price/value offering. A number of case firms pursued focused differentiation through branding, producing super premium and premium wines based on innovation, location and channel placement. A number achieved this internally through cost-based approaches, economies of scale and scope allowing market (category) leadership positions, and tight cost control. Many used product-based approaches through R&D, innovation and the development of regional wines and styles. Some used their own resources, some focused on controlling channels, while others were involved in IPOs for resources such as vineyards, or others used investors' channel linkages. Some companies' approaches were highly localised. One had a strategy that was clearly one of local regional growth in the interests of all:

> I think that no region can establish itself as a winemaking region without numbers, and if (region name) is going to be seen as a winemaking region it doesn't matter how big the wineries are, we need numbers. And at this stage, I think there's 12 labels from (region name) on the market, but there are 30, I think 32 people growing grapes (Winery #10, text units 124-125).

At the time of the interviews, all but one of the large firms were largely overseas owned, but the vast majority of the medium-sized firms were privately New Zealand owned. The industry was strongly export focused, using tight channel strategies, either through ownership link or via long-terms relationships. In terms of resources, The key focus for resources was on a secure, high quality grape supply. This was mostly done through long-term relationships with independent grape growers but a significant minority of firms controlled this resource internally. In terms of activities, the wine firms were mostly vertically integrated, making some use of outsourcing, especially in channels. Growth was largely independently focused, with 2 wineries producing wine for forward integrating grape growers.

4.3.3 The nature and functions of relationships

There was a wide diversity of views of and uses of relationships among the case companies, ranging from avoidance of relationships altogether, to their rational and calculative use, through to recognition of being deeply socially embedded. Table 4.8 was constructed from the within case tables of the nature and function of the wineries' relationships (Tables 4.2.2.1 to 4.2.17.1) and shows clear clusters of how the firms saw the nature and importance of relationships in terms of their function in strategy. These themes are developed below.

Table 4.6: A cross-case relationship/strategy formation typology (* as ranked in Table 4.5)

Relationship*/comments	Nature of Relationship	Strategy Options	Evidence/key cases
1. Grape growers	**Long-term formal**:		#2
	- contracts	Security of supply	#15, #8
	- contracts plus quality bonuses	Quality of supply	#6, #7, #12, #14
Key distinction between strategy of internalisation and purchasing from growers. A number using relationships with grape growers would like to purchase more from fewer of them.	**Short-term formal**:		#13, #15
	- contracts	Distrust of growers	#17
	- spot purchases	Flexibility, no commitment to growers	#10
	Long-term informal:		#9, #11, #15
	- handshake	Quality of relationship (trust)	#3, #4, #16
	- grower's name on wine label	Commitment, mutual benefit	#5
2. Internal structure and relationships	- Board structure, siblings + NED	Internalisation of key resources	#2
	- Siblings + next generation	With division of roles With personal control, focus on independence With outsourcing of channel activities	#3, #4, #5, #17 #10, #11, #17 #2, #3
Clear patterns of organisational structure and internal relationships between smaller and larger firms but varied levels of control. Similar strategic decisions between internalisation and relationships.	Owner + shareholders	IPO for resources	#8
	Joint venture	Vineyard resources	#3, #4
		Control channels + resources + production	#9
	Parent company with autonomy	Wholly owned with channel linkages	#6, #14
	Regional structure	Empowered, flat organisation	#7, #12
	Divisional structure	Formal parent-subsidiary linkages, distant HQ	#13, #15

Relationship*/comments	Nature of Relationship	Strategy Options	Evidence/comments
5. Distributors	**Multiple**	Long-term relationships	#2, #3, #4, #5,
	Own sales force	Key account management	#6, #11
	Single channel	Control, short term 'business plan '	#10
Key distinction between own channels and use of others' and degree of control.		Control, short and long term	#9, #17
	Parent channels	Through ownership, parent channels	#12, #14, #15
	Cellar door sales only	Tourism, visitors to winery	#13, #15
3. Other wineries and	**Family connections**	Historical growth of the industry	#2, #3, #5
4. Industry (including 11.	**Winery group**	Quality development	#3, #4
Winemakers)	**Informal**, social	Information sharing	#4, #5, #16
	Hub/Leadership role	Mutual benefit	#7, #10, #12
Many examples of informal co-operation linked to market and technical learning and information sharing. Only 2 took no part in this and 1 did less recently.	**Ownership**	International linkages	#14
	Informal, regional	Joint marketing + promotions	#11, #17
	Contract winemaking	Resource + activity	#10, #11
	Informal, friendship		#6, #11, #15
	Avoid competitors	Focus on internal control	#10, #13, #17
6. Agents	Long-term trading arrangements	Long-term market growth	#2, #4, #5, #7, #8, #11
		Stability of relationships	#7
	Business plan	Tight management of objectives	#3, #9
Strong emphasis on close personal contacts and long-term stability.	Single agency	Focussed effort	#10
	Indirect, through ownership	Market knowledge (visits to both)	#7, #13, #15
	Close, personal		#11

Relationship*/comments	Nature of Relationship	Strategy options	Evidence/comments
7. Wine Institute	Compulsory membership of industry body	Legal requirement	All
	Advocacy, quality standards	Collective activities eg market entry	#2, #3, #9, #10
Some against compulsion but vast majority saw positive benefits.	Local and international negotiation	Positive benefits, information and problem sharing, useful	#11. #12, #14
	Structural issues (size, fees)		#17 (strongly against)
8. Other suppliers including	Sole or few suppliers	Security and quality of long-term supply	#2, #3, #9, #15,
9. Glass suppliers,			
10. Packaging,	Multiple (some M&A among suppliers)	Renewable each year, split supply for balance, opportunistic prices	#8, #16
12. Other services,			
13. Machinery	Quasi monopoly, distrust	Tight management	#6, #7
		Enforced choice	#4, #10, #11, #17
Monopoly supply of glass & packaging breaking down. Stability & quality required.	HQ control	Centralised activities	#12, #13
	Import (agent or direct)	Product choice and price	#14

Table 4.7: A cross-case strategy realisation/relationship typology

Dimension/comments	Nature of strategy realised	Relationship use, if any	Evidence/key cases
<u>1. Products: value/position</u> **Clear strategic focus on differentiation by NZ industry players, with extensive use made of R&D relationships for innovation and quality. These represent the way in which the industry has developed historically and remain important to many.**	- Differentiation through branding	Contractual, trading arrangements in channels	#2
	- Differentiation based on wide product range and quality-price/value	Committed, long-term relationships, especially horizontal industry R&D	#3, #12
	- Differentiation as a known innovator	Committed, long-term relationships, especially horizontal industry R&D	#4
	- Differentiation through quality and awards	Committed, long-term relationships, especially horizontal industry R&D	#8
	- Differentiation and focused differentiation over wide range	Committed, long-term relationships, especially in channels	#9, #10, #11
	- Follower (was early innovator) based on wide product range and quality-price/value	Early industry involvement + location	#5, #16
	- Consumer-driven differentiation	Early industry involvement + ownership links	#6
	- Focused differentiation based on premium and ultra premium regional product	Early industry involvement + ownership links	#14
	- Differentiation through JV learning	Early industry involvement + ownership links + international JVs	#7
	Differentiation based on wide product range with regional price premium	Internal through parent company	#13, #15, #17

Dimension/comments	Nature of strategy realised	Relationship link	Evidence/key cases

<u>2. Markets: domestic/export</u> **The industry is strongly export focused, with sales achieved through tight channel strategies, either ownership or using close long-term relationships.**	- 40% domestic/60% export	Contractual, trading arrangements in channels	#2
	- Very small/modest export volumes	None, historically a domestic producer	#5, #16
	- Growing export markets	Committed, long-term relationships in channels	#3, #4, #10, #11
	- No 4 New Zealand wine exporter	Committed, long-term relationships in channels	#8
	- No 3 New Zealand wine exporter	Committed, long-term relationships and JVs in channels	#9
	- No 2 New Zealand wine exporter	Ownership links in channels	#6, #13, #15
	- No 1 New Zealand wine exporter	Ownership links and JVs in channels	#7, #12
	- 80% exports	Ownership links in channels	#14
	- 30% exports and growing	Only in channels, including a JV	#17
<u>3. Resources: internal/external</u> **The key focus for resources is a quality and secure grape supply. This is mostly done through long-term relationships with independent grape growers but with a significant minority controlling this resource internally.**	- Internal funding and control	Reducing, with focus on internal	#2, #7, #10, #16, #17
	- Financially leveraged growth	Internal funding and external (IPO or VC) mix	#8, #9
	- Security of grape supply and other resources	Committed, long-term relationships	#3, #6, #11
	- Security of grape supply	Committed, long-term relationships	#4, #5, #8, #9, #12, #13, #14, #15
Dimension/comments	**Nature of strategy realised**	**Relationship link**	**Evidence/key cases**

<u>4. Activities: internal/external</u> **NZ wine firms are mostly vertically integrated, making some use of outsourcing, especially in channels. Growth is largely independently focused, with 2 wineries producing wine for forward integrating grape growers.**	- Outsourcing non-core activities	Contractual, trading arrangements	#2, #7
	- R&D based innovation	Committed, long-term horizontal relationships	#3, #4, #8
	- Intermediaries in channels	Building new relationships	#5
	- Key account management of sole suppliers	Long-term contracts	#6, #7
	- Leveraged growth	Production, bottling and channel JVs	#9
	- Lead regional industry as hub firm	Contract production for forward integrating growers	#10
	- Lead regional industry as hub firm	Driven by firm's large size in relation to local SMEs	#12, #13
	- Independent growth	Contract production for capacity utilisation	#11
	- Independent growth	None, avoidance	#10, #17
	- Independent growth	Location and local links	#14, #15

Table 4.8 Clustering of relationship functions and their importance

Most involvement ◄——————————————————► Least involvement

<table>
<tr><th rowspan="2">Key relationship</th><th rowspan="2">Internal</th><th colspan="2">Value creating/ Dependent</th><th colspan="2">Committed</th><th colspan="2">Connected</th><th rowspan="2">Avoid</th></tr>
<tr><th>Direct</th><th>Indirect</th><th>Direct</th><th>Indirect</th><th>Direct</th><th>Indirect</th></tr>
<tr><td>Grape growers</td><td></td><td>xxxxx xxxxx</td><td></td><td>xx</td><td></td><td>xxxx</td><td>x</td><td>x</td></tr>
<tr><td>Other suppliers</td><td>xx</td><td></td><td></td><td>xxxx</td><td></td><td>xxxxx xxxxx xx</td><td></td><td></td></tr>
<tr><td>Wine Institute</td><td></td><td></td><td></td><td></td><td>xxxxx xxxxx x</td><td></td><td>xx</td><td></td></tr>
<tr><td>Other wineries</td><td>xxxx</td><td></td><td>xx</td><td></td><td>xxxxxx</td><td></td><td>xxxxxx</td><td>xx</td></tr>
<tr><td>Distributors</td><td>xx</td><td>x</td><td></td><td>xxxxx</td><td></td><td>xxxxx</td><td>x</td><td></td></tr>
<tr><td>Agents</td><td>xx</td><td>x</td><td></td><td>xxxxx</td><td></td><td>xxxxx</td><td></td><td></td></tr>
</table>

x = an occurrence of one case study predominantly using this approach

Some firms had a predominant preference for a particular mode of interaction, whereas others used a variety of approaches simultaneously or in different relationships. These differences covered horizontal relationships with other wineries, vertical relationships with grape growers, distributors, overseas agents and other suppliers and a diagonal relationship with the industry governance body, the New Zealand Wine Institute. Horizontal relationships with other wine companies ranged from none at all (there being no reason to talk, according to the interviewee at Winery #13) through avoidance (Winery #10), to family connections going back generations (Winery #2 and #5), close social and technology sharing interactions (Winery #3 and #4) to formal networks of companies with a legal structure (Winery #9 and #17). Horizontal relationships fulfilled all of the indirect (market, scout, innovation and access) and social functions in most cases, though Winery #17 did *not* use them for social functions and Winery #15 *only* used them for social reasons. Some large winery subsidiaries, Winery #14 in particular, focused on internal connections with other wineries in ownership. There were value-creating horizontal relationships for Wineries #9, #11 and #17, through contract winemaking and sales and distribution alliances. Views were evenly split between seeing these relationships as committed or just connected. Structurally, a number were involved in nets – strategically intentional groupings. #3 and #4 were in a local wine R&D sharing group and #17 in a sales and marketing group, while Winery #9 was in a distribution net and #10 and #11 were in local production nets.

Vertical relationships with grape growers, where they were used, fulfilled direct resource functions and were committed and even dependent, as this was a critical resource. In many cases the relationships were seen as value-creating (at Wineries #3, #4, #8, #9, #11,

#12) though in some they were only seen as connected (Winery #7 and #17). Time-frames ranged from Winery #8 which had over 90 growers on long-term contracts with one grower it had had for 40 years, to Winery #16 which had 5 growers not on contracts, through to Winery #10 which had only 3 and bought in very few grapes, making spot purchases as the opportunity arose. Uniquely, Winery #10's long-term relationships with grape growers were only indirect – as clients for contract winemaking.

Vertical relationships with distributors fulfilled direct activity functions and were either direct or through agents, close and tightly-managed, with many on short performance-based contracts, and a few cases managed on a personal basis. Three of the companies (Winery #8, #10 and #11) had their own sales force. In terms of overseas agents, again these tended to be close long-term relationships though some operated through ownership linkages. These were committed (even value-creating where there was a joint venture as at Winery #9) for the most part, with some seen as connected (large wineries #6 and #7), and seen as a critical activity. Some made the distinction between connections to distributors but commitment to agents – a closer more personal relationship. For Wineries #12, #13, #14 and #15 these were internal relationships.

Diagonal industry governance relationships were formalised through compulsory membership of the industry body, the NZ Wine Institute, now New Zealand Winegrowers, with its prime function being indirect (market, scout etc). Views about its importance varied from positive benefits to all through to gripes about fees and being strongly against it. Some wineries felt only connected whereas the majority felt committed to it. In terms of suppliers of other key inputs, the larger firms managed these tightly on short renewable supply contracts, other were described as long-term supply relationships with incremental changes along the way and many mentioned the enforced choice of using quasi-monopoly suppliers (a historical feature of the small and remote New Zealand context) although this was changing. Whilst these were ancillary resources when compared with grapes and there were alternatives available to most wineries, the large wineries were perhaps slightly more dependent on these suppliers because of their large volumes.

In summary, these data showed the diversity of views on and functions of relationships, of how firms identified and utilised their relationships within the industry, ranging from close, long-standing trust-based relationships to quite adversarial arms' length approaches to business interactions. The same kind of relationship, for example with growers, varied from committed, value-creating relationships to the merely connected. The firms showed a diversity of degrees of integration from competing at limited points in the value system eg in the production and sale of wine, to almost complete integration of the value system eg growing their grapes, wine production, and control of sales and distribution channels. Some interviewees were able to converse about and describe their relationships with multiple actors within the industry, whereas others could not or did not. The interviewees' discourses ranged from those that covered a wide array of connections and those which focused tightly on specific areas, though there were many similarities among them all. They allowed comparison between how firms viewed and managed their relationships with other entities and the importance that was placed on these linkages.

4.3.4 Relationships levels and outcomes

These themes are brought together at the macro, meso and micro levels at which relationships were identified using Tables 4.2.2.2 to 4.2.17.2. In attempting to understand the very different perspectives companies in the same industry and in close geographical proximity had on their industry and their business relationships, patterns emerged from their choices of anecdotes with which they explained their industry to an outside person (the researcher) and these are summarised under each heading.

Macro, environment level

In terms of the industry context for the study views varied considerably, based on differences in perspective between the larger 'corporate' wine companies, and the medium-sized firms, and their comments on the smaller so-called 'boutique' producers. Common themes were its traditions and historical development but views differed markedly on change, on the shifting nature of competition domestically and internationally, and the changing dynamics of long-established industry co-operation. The main themes were the traditional collective co-operation among producers, shared technical and market learning and the current rationalisation among the large numbers of smaller new entrants. The collective benefits of co-operation, and the leadership of focal firms and informal groups had been important in industry and regional development, but the historical traditions of the industry were breaking down, especially private ownership and co-operation. The traditional co-operation in export and R&D remained in patches but industry competitiveness and competitive rivalry were growing fast. In summary the social nature of the industry was declining, being replaced by rapid growth in production, export sales and new entrants to the industry. The key strategic focus was quality grape supply and, increasingly, channels. Views of the industry were expressed in the stories or narratives that focused on the current state of the industry, and these were largely about people's values and their external relationships within the industry:

#5 – Informality and Sociability;
#6 – No more free help;
#7 – Ideology?;
#10 – Forward integration;
#11 – New Entrants;
#12 – Don't believe the hype; - Industrial scale

	production
#8 – Poor Quality new entrants;	#15 – Not much co-operation; - Visitors
#9 – The state of the nation;	#17 – Wine culture

These narratives reflected some common themes about the traditions of the industry and how firms compete within it but they also showed some diverse views of where and how the industry was developing and how it could change. Whereas considerable importance was placed on the traditional, historical family-based roots of the industry, with the growth of the industry based on co-operation, with formal highly politicised governance structures and informal knowledge sharing processes especially important, some informants felt that the industry had changed very little, still being based on competition and co-operation, with high levels of informality and sociability. Others felt that industry changes had brought about much more competition, which in turn was changing the industry. The key competitive threats to the industry came externally from fluctuations and change in long-term supply and demand in global markets, and domestically from new entrants' products, which some felt produced lower quality wine, though others felt that the wines were good quality because they hired well-know winemakers. The industry had grown rapidly over the past 30 years but the more recent new entrant problem was characterised by informants as too many of them with lower costs of production (due to lower levels of investment) selling their wines at the top of the mid price bracket. Many saw them as lacking the long-term commitment and ideals of the incumbent players, who were: "the people who are in it for a business…not for a way of life" (Winery #11, text unit 76), though some welcomed the diversity and growth they represented.

Meso, relationships/dyads level

At the relationship level, many informants felt that the co-operation and shared technical and market knowledge that had been the key to the industry's success were still critical for industry growth, through such means as experimentation, trials and quality improvements. Whilst there was rationality and planning in many of these relationships, people were prominent, not just resources or activities. Personal friendships co-existed with commercial realities. This seemed to be breaking down, however, starting in the large companies and permeating down into the medium-sized companies. Each size-tier saw the next tier down as the key threat, implying a size-based differential in view of cooperation and competition. In terms of a general approach to relationships and interactions within the industry, there was a trend towards less co-operation and reliance on trust-based relationships and more independence. Firms focused more on internalisation and control of resources and activities, especially those relating to quality and brands and channels, and on formality. This was evident in the four joint ventures that were identified (two in vineyard ownership and two in channels), although the impression was one of the breaking down of informality generally within the industry. Within the stories about firm relationships, many focused on the development of the industry itself, with the emphasis on co-operative growth, people's values and ways of interacting:

#2 – Industry co-operation, - The Founding Families;

#3 - The 1960s Group, - Wine Industry Politics, - The Hard Business Lesson;
#4 - The Wine-tasting group;
#5 – Non-joiners or us and them;
#6 – Dark Night in Gisborne

#10 – Regional Leader;
#11 – Personal contact;
#14 – Paddock to World recognition; - Few personal links;
#12 – What we've done for them;
#16 – Purely social;
#17 – Network enthusiasm.

Within the stories about specific industry relationships, those with suppliers were primarily about firms' external activities and inputs:

#4 – The Glass Monopoly, - Adventurous Packaging Imports;
#5 – Grape Growers who 'play fair';
#9 – What to grow? - advising growers;

#13 – Grower relationships;

#16 - Growers' freedom; - Balanced supply;
#17 – No contractual loyalty.

In accessing critical resources, whilst most supply relationships were covered by contracts, in practice these were not considered important and only one instance was encountered of an effort to enforce one. In practice, many business relationships were still conducted on the basis of handshake agreements being sufficient. There was much emphasis on the importance of honest dealing with trusted partners and on the security for suppliers with purchasing companies, especially larger ones. Noting the agricultural roots of the case industry, references were made to the need to treat suppliers (growers) as business people not peasants but the overall change in relationships with growers had been very dramatic – from adversarial farming price negotiations to co-operative commercial relationships based on mutual planting decisions, viticultural practices, quality management, branding etc. The interaction with growers was pragmatic, based on the realities of pricing (with most believing that the flexibility was at the grower end), but nonetheless often friendship based. In terms of other suppliers, there were problems with quasi-monopoly suppliers but their power had reduced under economic deregulation.

In terms of scale and growth, it was importance to encourage suppliers (grape growers) to expand and many firms wanted to have fewer, but larger volume growers to deal with. These issues were directly related to the wine companies themselves expanding and to growth of their markets. There were also size issues in relationships with other competitors in the industry: as companies grew they were less likely to give free help to others, though one large company and one smaller one emphasised their hub focal firm roles in helping to develop the industry.

Micro, firm level

At the firm level, in terms of activities, all firms made decisions about where to compete in the value system but some chose to compete only in specific areas, for examples, grape growing and winemaking; others in winemaking and branding; and still others in grape growing, winemaking, branding and distribution. Some New Zealand wineries were production units for globally integrated wine companies and some were independent, even having complete (domestic) integration as a goal. The stories on company strategy and development were about the nature and extent of firms' internal activities and their relationships connections in the industry, and the key themes were funding growth (either internally or leveraged externally), managing security and quality of supplies, through leverage or ownership, and issues of control – primarily costs and channels.

#2 – Company change;
#6 – Equal Treatment;
#7 – Stability in relationships; - Choosing and Planning;
#8 – Chopping and Changing; – Better People;
#9 – Newco: forming a new company;
#10 – Self-sufficiency;
#11 – Contract winemaking;
#13 – Parent/subsidiary relations, -"Exports are quite confusing";
#14 – International ownership;
#15 – Central control.

4.3.5 Links between relationships and strategy in the wine industry

Resources

Table 4.6, 4.7 and 4.8 show how close vertical relationships with grape growers met the need for security and quality of supplies whilst leveraging financial resources for many. Relations were often long-term, informal and trust-based, although some distrust was identified. Wineries were looking for flexibility, trust, commitment, value and quality. Many wanted to concentrate their purchasing on more volume from fewer growers and a few wished to internalise key resources. In terms of other inputs into the production processes, again security and quality of long-term supply were important, contracts were often renewable each year, with split supply for balance and to take advantage of opportunistic prices. Large companies centralised purchasing and production activities and managed suppliers tightly, despite what many saw as the enforced choice in the New Zealand market. Product choice and price were important and there was much mention of the monopoly supply of glass and packaging and that this was breaking down. Firms used more transactional, arm's length relationships with distant service providers and with suppliers of less critical resources such as bottles, packaging, tanks, equipment etc. In terms of resources, the two patterns of internalisation of grape production or long-term purchasing relationships were seen across the range of product value position strategies. No corresponding patterns were identified between strategies realised and the use, or not, of relationship approaches.

Activities

Many companies were empowered, flat organisations, though distant HQs were observed with formal parent-subsidiary linkages. There were clear patterns in organisational structure between smaller and larger firms but with varied levels of central control. Within the larger firms there was a growing division of roles, though the smaller firms retained personal control, with varied levels of independence. A major theme was outsourcing of channel activities. Some firms controlled channels but used external approaches such as IPOs for resources and JVs for market-based initiatives. Shareholding and investment-related channel linkages were also observed. There was a key distinction between building and using one's own channels and using others' and their relative degrees of interaction with agents and distributors. Using collective, alliance-based strategies for new market development was declining as ownership and formality replaced industry co-operation in this area.

The historical growth of the industry had seen horizontal information sharing for quality development and many had seen the mutual benefits in this. Many firms reported shared international linkages and joint marketing and promotions and there were many examples of informal co-operation linked to market and technical learning and information sharing. Only two took no part in this and one was doing less recently. Many were still using vertical and horizontal relationships for capability and new product development, such as the development of high quality varietal production. Although membership of the industry body was a legal requirement, most saw the institutionalisation of collective activities, eg market entry and positive benefits, information and problem sharing as useful. Some were against compulsion but the vast majority saw positive benefits. In terms of activities, these were either vertically integrated or contracted, though with less use of long-term relationships here. Two key patterns of ownership or relationship based approaches to channels were clear, but again there were no corresponding patterns between strategies realised and approaches to key activities.

Actor Values

Whilst there was a pattern of changing business relationships to tighter key account management, many firms retained a long-term view of relationships with a commitment to a certain personal way of doing business. Common strategic objectives among the firms were long-term export market growth with the goal of stability and tight management of objectives within turbulent international markets. In terms of international markets, visits between both remained crucial as there was still strong emphasis on close personal contacts and long-term dependability. Whilst many wineries had experienced the personal social approach to doing business in the industry, many saw this changing at the industry level. The variation identified in approaches to business relationships or styles of managing or valuing business relationships seemed to have no clear association with the strategies realised among the firms.

4.3.6 Conclusions to Stage 1

The data showed that relationships of many kinds were used in strategy to manage resources and activities in diverse ways within one industry context. There were different ways of achieving strategic purposes through relationships for example, in obtaining *the* key resource, grapes. This was shown to be done through long-term relationships with suppliers based on trust-based informal links, through shorter contract-based forms or through vertical integration. The way in which the informants ultimately viewed their relationships may have been relative to its importance to the business (for example, the percentage of grapes grown or bought in and how dependent the winery felt it was on this), or related to its duration or to the original intent of the relationship and comfort levels with commitment over time. These views may also have been based on managers' previous experience and their preferred ways of doing business – whether intentional or not. Relationships, where used, had different functions or ways of functioning within the business in terms of resource or activity content and its direct or indirect use in strategy. For example, one firm had close personal links with other wine companies in its region for the direct purpose of contract winemaking, but no or only distant formal relations with others, whereas most wineries used these relationships for indirect and social functions. Relationships were shown to be calculative and rational/intentional, or strongly personal, even emotional.

The foregoing has shown insights into the links between relationships and strategies within the industry. Firm strategies and behaviour have been described, together with *some* explanation in terms of outcomes from the relationships. Whilst there were historical commonalities in the industry, differences appeared and new relationships were emerging within ownership structures and marketing and distribution channels. Some firms had a clear preference for more transactional relationships, other favoured more embedded, interpersonal, social business relationships. Why this was and how it affected dynamic processes within the industry, and in particular, the propensity to use relationships in strategy, seemed to be related to how the interviewee valued and had experienced the relationship over time, and these were grouped into three categories of factors, those which were:

- Environmentally remote from the firm (macro level);
- At the relationship/dyad level (meso level);
- At the level of the firm and its internal view of strategy (micro level).

In relation to the research questions the Stage 1 data gave an exploration of the issues, giving a rich description of firm understanding and use of relationships in strategies and allowed categorisation of the interaction between these (Tables 4.3 to 4.8). That analysis responds to Research Question 1, showing how firms understand their business relationships, based on a diversity of relationship approaches. The Stage 1 analysis also showed how these diverse approaches to relationships affected how they were used in strategy, in response to Research Question 2, linking understanding and use. However, Research Question 3, to explain the link between understanding and use of relationships in strategy, remained. To explain what was driving the various approaches the focus now turns specifically to the relative influence of environmental, relationship and firm level factors on relationship in strategy. The discussion now moves to explanation building.

4.4 From Stage 1 Findings to Stage 2 Data

As was shown in the analysis of the Stage 1 data, and especially the across case analysis, three factors or approaches, followed singly or in combination, might explain the diverse use of relationships in the industry. At the industry environment level, Table 4.7 shows the importance of industry R&D relationships for quality and innovation, facilitating the differentiation of the industry's products. 'Other wineries' and the Wine Institute fulfilled indirect functions and showed committed and connected relationships. At the relationship level, critical resource requirements influenced resource-based relationships for examples grapes, glass, barrels, corks, land, technical capabilities, and these were used in strategy for supply, innovation and quality management. Capability-related strategies influenced activity-based relationships for example in internalisation or integration, access to capital through investment partners, distribution channel connections, and these were essential for firm growth and expansion. Table 4.7 shows that firms either had access to channels through ownership links or secured them through long-term relationships, though those with distributors and agents were seen as direct and showed some value-creating, dependent relationships, with many committed and connected. At the firm level, strategic objectives and managers' personal values and experience influenced actor-based relationship importance for example long-term commitment, friendship, trust, industry traditions, compatible business (or other) objectives, and these built industry cohesion and development.

The importance of the influence of environmental, internal and relational factors within the industry remained unclear and required further explanation. Common patterns in the use of relationships across the industry were not based on the strategies pursued. In order to clarify the possible the link between business relationships and strategy, and environmental, internal and relationship influences, these were combined and tested with further case study data. Diagram 4.3 models these three levels of relationship influences or drivers and their theorised interactions which emerged from Stage 1, in order to explain what factors drove particular approaches to relationships and strategy. The model shows that strategy drives relationships based on environmental, relationship and internal factors – ie factors from which the set of strategy options may emerge (Tables 4.2.1.2 to 4.2.17.2). Relationships are based on actor bonds, resource ties or activity links or a mix of these (Tables 4.2.1.2 to 4.2.17.2). The results of the relationships are focused on industry development, product supply and quality and firm growth and expansion or a mix of these. Relationship outcomes influence strategy content and process and the environment moderates the strategy-relationship process.

Interview questions were developed in order to gather in-depth data to clarify and test how these factors interact and influence or drive relationships and strategy (see Appendix 3.2 for Stage 2 questions). A sub-sample of the interview companies was selected for a further in-depth interview in which to test the model. The sample was based on theoretical insights from Stage 1, which showed different approaches or emphases in relationships in three different kinds of strategic contexts: those that used relationships in strategy (referred to as relational), those that did less (taking a more transactional or arm's length approach) or those that used a hybrid of the two. By looking for patterns in terms of the dominant themes that emerged from the Stage 1 cases, three cases typified more personal, relational approaches, making use of co-operative relationships (Wineries #4, #8 and #10). Three exhibited less use of relationships, taking a more calculative transaction-based view of relationships (Wineries #2, #7 and #14). The final two (one from Stage 1, Winery #9, and one new case selected for its new approach, Winery #1) exhibited a new, hybrid approach which combined both with some newer approaches to strategy in the industry and were acting more like 'virtual' companies. The next section introduces and develops the Stage 2 data analysis

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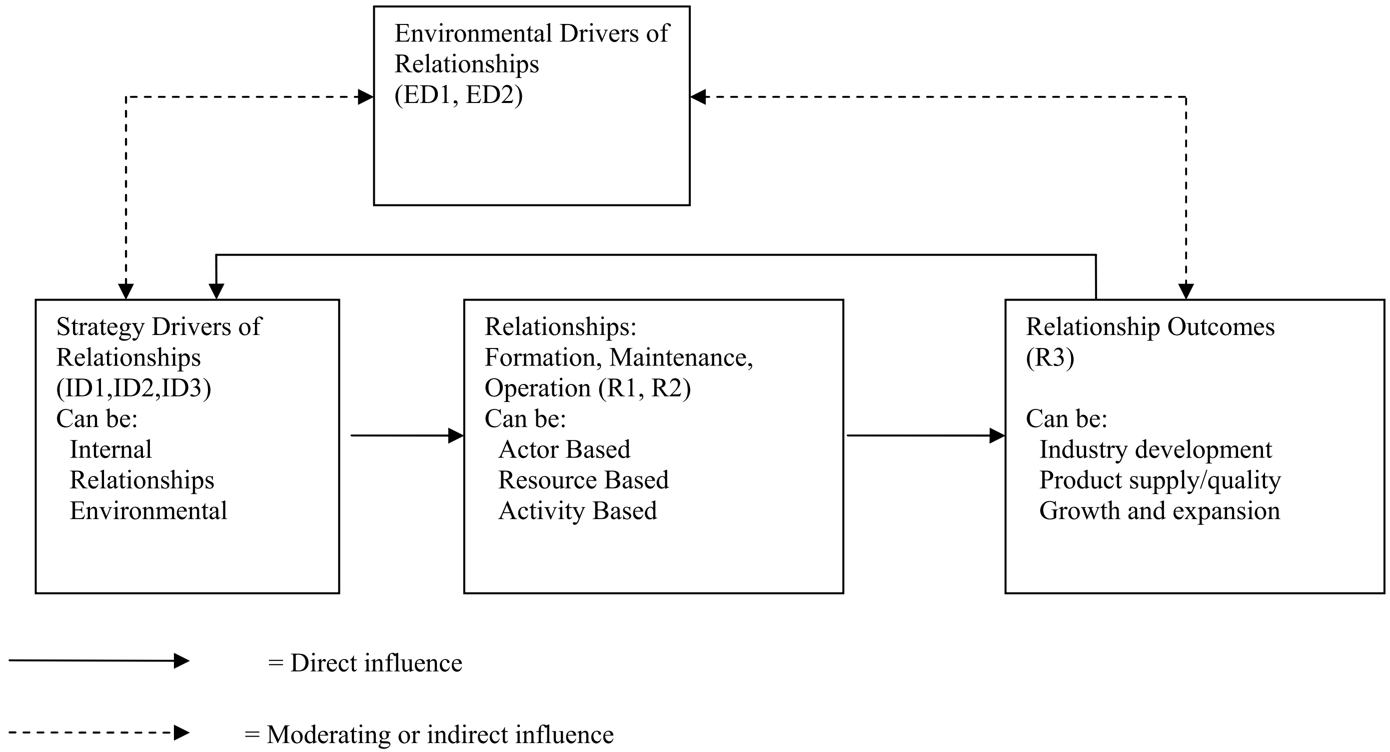
Diagram 4.3: Potential drivers of relationship use in strategy



4.5 Confirmatory Stage: Within Case Data

Stage 1 was a snapshot of how firms viewed their relationships, and their links to strategy were analysed. Stage 2 gives a more focused analysis of selected case studies and the two stages together identify underlying processes and change within the industry. A key method in the data analysis was to seek patterns and different ways of comparing and contrasting, to identify themes and theoretical insights. This second stage analysis used a combination of both numerical (counting) data and verbal (descriptive) data gathered from the eight cases for Stage 2. They were selected for their theoretical interest based on their approach to strategy and relationships from Stage 1 and represent particular types, rather than industry strata or categories (as in Stage 1). Table 3.8 shows some descriptive characteristics of the Stage 2 firms. The first part of this section, the within case analysis, looks at the weighting or importance given to each of the theoretically and empirically derived factors of the model in Diagram 4.3 to assess how it applied to each case. Also within case, changes between Stage 1 and Stage 2 are briefly outlined. The second part of this section, the across case analysis, reviews data relating to the model and considers across case changes between Stages 1 and 2.

4.5.1 Procedures for Stage 2 within case analysis

In analysing the Stage 2 data the interviews were transcribed and coded in Nud*ist using the component factors of the model as a coding frame. A full list of the codes is in Appendix 3.4 (see also the question guide in Appendix 3.2). Text unit counts under each code were produced for each case to assess the importance or focus given in the interview to each element in order then to give an overall assessment of how well the model described the interaction between relationships and strategy in the case firms. The rankings are summarised in Table 4.17. This textual analysis is set against the background of a balanced number of questions in each of the areas of the model, namely Strategy, Relationship and Environmental drivers. A case by case account of the Stage 2 data, application of the model to that case and discussion of changes between Stages 1 and 2 for each case now follows.

4.5.2 Case # 1

This case firm was not part of the exploratory stage as it had not been large enough at that time to be included in the study. It was introduced into the sample at Stage 2 as it had come into membership of the medium-sized category of the Wine Institute and appeared from external observation to exhibit some newer ways of setting up and operating within the industry when compared with the existing players already interviewed for Stage 1. It was the newly-established New Zealand arm of an old-established Australian winery, which bought into several small New Zealand wineries and went straight into Category 2 membership of the

Wine Institute, rather than growing from Category 1. In terms of purposeful sampling (Patton 1990) the addition of this case helped to ensure a fuller theoretically relevant picture of the industry.

This winery had an intentional strategy based on a mandate to source quality wines from the New Zealand market for its parent's international portfolio. Its relationship approach appeared to be a hybrid from inception since it seemed to be using a purposeful mix of relationship styles, rather than having one predominant approach. The firm was building relationships in some critical areas – grape supply and production, distribution and marketing for example, but it leveraged resources strongly. The firm was working in alliances and joint ventures both domestically and internationally and was doing all of these from inception.

Table 4.9 shows a summary of the Stage 2 data for this case. Of note were the high values for value chain position, activity based strategy drivers and the emergence of relationships and the low ones on resource-based drivers and relationship dynamics. Its strategy focus was not just about securing resources, but involvement in the entire value system. These counts reflect this firm's complete value chain coverage from growing grapes through production to distribution. This was done through flexibility of ownership and relationships, either through joint ventures or alliances, thus avoiding over-reliance on one approach, confirming the view of this firm as using a hybrid or mix of styles. It should be noted that in the summary table for each case the columns do not sum to any common number since text units may have been multiple coded. The relevance of the percentage of counts is their relative amounts within each case. The amounts at (1), (2) and (3) are general catch-all codes, while the sub-elements are finer-grained codings.

Table 4.9: Summary of Stage 2 data for Case # 1

(This case had a total of 197 text units)

Potential strategy-relationship drivers	**% of Text Units on sub-theme**	**% of TUs on this driver**	**Ranking of driver**
(1) Strategy drivers	20		
Actor based:	20		
Values	11		
Organisational Purpose	5.6		
Mission	0		
Resource based:	0.51		
Capabilities, competences	5.1		
Exchange	8.1		
Activity based:	29		
Knowledge & learning	5.1		
Value chain position	29		
		75%	**1**
(2) Relationship drivers	60		
Relationship formation & maintenance	12		

Relationships – planned	6.1		
Relationships - emerged	15		
Relationship operation	19		
Relationship outcomes	14		
Relationship dynamics	11		
		68%	**2**
(3) Environmental drivers	25		
Industry	6.6		
Macro-environment	0		
		27%	**3**

To illustrate the firm's view of the value chain:

> I'm constantly staggered there are people with no wine industry background whatsoever jumping on the vineyards. 'Let's go own in the vineyard and grow grapes because it's a happening thing', without understanding...We understand the pain of making wine, slightly cliché but you know, from grape to the glass, we can, we're practically experienced ... the only thing we don't do is retail wine. (Case #1, text unit 162).

The firm's emphasis on co-operation is illustrated by discussion of a joint venture in grape processing:

> the previous ownership they couldn't handle it and realised that they were in big trouble, talks of litigation and so on ... grapes rolling in and whatever else. And they put their hands up and decided to sell up and we were one of four equal shareholders. We all fortunately work well together. It's complementary and it's a sound strategy. It means we're only equipping the winery with the gear ... we're not having to buy in all different types of equipment and tank sizes that a lot of wineries have to handle (Case #1, text unit 104).
>
> …
>
> all four partners have to be 100% committed to each decision (Case #1, text unit 114)
>
> …
>
> I think the success of [*name of venture*] has been down to the trust and the relationships that existed, prior to the formation of [*name of venture*] which has actually since got stronger. You know through working together as partners at [*name of venture*]. Right place, right time, right people (Case #1, text unit 134).

This firm's relatively new position in the New Zealand industry based on its mature stage of development in Australia might explain its low focus on resources – it was using extensive resource leverage – and the low count on relationship dynamics might be explained by the fact that it had not been around long enough to have a view of the change that can occur. This firm placed importance on strategy and relationship drivers. The ranking clearly shows the relative importance given by this firm to strategy drivers of relationships. Thus in terms of the model, its strategy driven view of relationships is given strong emphasis (1), followed by the importance of the relationships themselves (2) and then the relatively low influence of environmental factors (3). In summary, this was a new company with strategy driving its relationship formation and use, which was not influenced by history or existing relationship dynamics.

4.5.3 Case #2

This case firm was a traditional industry player, a long-established medium-sized company, one of the oldest wine companies in the industry, still family-owned and run, which had expressed a predominantly arm's length approach to relationships in Stage 1. Stage 1 showed that while the firm was deeply enmeshed in the traditions and history of the industry, and the principals still valued their personal connections, it had consciously changed its approach to strategy and though making use of long-term connections, it was not committed to or dependent on them. The wine company was much more strongly focused on controlling its growth independently through internalisation with minimal reliance on co-operative relationships except where necessary in marketing.

Having had a long but volatile history, the principals had learned from their experiences, considered that the older ways no longer applied and so had consciously changed their approach to business. Intentionality peppered with opportunism best described this firm's approach to strategy. The following illustrate the firm's views:

> We're mapping and planning and doing analysis that, we work 10 years in advance (Case #2, text unit 6).
>
> …
>
> I think one of the strengths of our company in every division of the company is our ability to plan and to actually lock our people into ownership of the planning. So when are planning, whether it's vineyard development, whether it's grape selection whether it's investment in machinery and technology and education, we don't just choose this here in [*head office*] and dictate (Case #2, text unit 46).
>
> …
>
> I think that when you dismiss or treat your opposition or your competitors or the enemy, call them whatever you will, and put them to the back of your mind and treat them like they are not there. I, we believe that you know, one day you wake up and you have a nasty shock. And I think that it's very important that we keep our colleagues in our industry firmly in our sights. Now why would you want to do that? Probably the only reason you would want to do that is to measure your progress against the rest of the industry (Case #2, text unit 149).

Of note in Stage 2 was a change in it approach to working with grape growers. The company was now looking to find more contract growers as it pursued its growth path, and had employed a viticultural expert to work with existing and potential growers. Table 4.10 shows a summary of the data for this case. High values were ascribed to actors and organisational purpose, to capabilities and competences, and to relationship dynamics. This interviewee had seen a lot of the industry development and its traditions and had gone through a great deal of change. This is reflected in these counts. The low counts on relationship operations and the lack of any on outcomes reflected the interviewee's non-operational role in the company.

Table 4.10: Summary of Stage 2 data for Case # 2

(This case had a total of 200 text units)

Potential strategy-relationship drivers	**% of Text Units on sub-theme**	**Total % on this driver**	**Ranking of driver**
(1) Strategy drivers	20		
Actor based:	24		
Values	10		
Organisational Purpose	8.5		

Mission	0		
Resource based:	4		
Capabilities, competences	28		
Exchange	16		
Activity based:	20		
Knowledge & learning	2.5		
Value chain position	16		
		72%	**1=**
(2) Relationship drivers	46		
Relationship formation and maintenance	10		
Relationships – planned	13		
Relationships - emerged	0		
Relationship operation	1		
Relationship outcomes	0		
Relationship dynamics	47	**72%**	**1=**
(3) Environmental drivers	34		
Industry	32		
Macro-environment	0		
		44%	**3**

This firm had a strong focus on independence and, whilst this is in the context of industry factors, the focus was on strategy drivers. The ranking shows the equal weighting given to strategy and relationship drivers (1=), and the lesser weighting to environmental factors (3). In summary, while this older company had gone through turbulence and change (and survived) and now sought growth and independence, in reality it could not do this entirely internally and pragmatically had to work in key relationships.

4.5.4 Case #4

This was also an older, medium-sized firm, which had expressed a strongly relational approach to its strategy in the industry in Stage 1. Stage 1 showed that, unlike Winery #2, it was still using more traditional approaches to co-operative interactions in the industry and to its strategies, based on R&D and innovation. Winery #4 made use of committed relationships with a dependent value-creating approach to relationships with grape growers. Whilst growth had been unintentional in the past, it was now at a critical expansion point. Its co-owners were some of the early founders of the industry in its modern growth phase from the 1980s onwards. They had a reputation as innovators and leaders, especially in the early knowledge-sharing involved in the growth of the industry and its quality. They were still doing this until recently even though running a successful maturing company. They still made extensive use of relationships and were embedded in a number of supplier, producer and distribution networks. Strategy had been emergent, responsive. In Stage 2 the principals of the firm remained committed to the collective way in which they had done business in the past and to the way the industry had developed, having some clear preferences for the way in which they did business. Their collective approach was encapsulated in the company's view of its most critical relationship:

> The Wine Institute [now New Zealand Wine Growers]. You can't get away from the fact that the co-ordination role that they play in export is huge. And without that, we are all too small to export on our own. We need that. Even the big companies need the little companies in there simply to add colour to the picture. I mean if there was just Montana exporting, for example, I don't think the export industry would be anywhere near what it is. It's all about adding colour to that picture, that export picture by having lots of people involved...I think probably the most critical for the future is obviously the overseas factors and that includes the Wine Institute and that area of exports (Case #4, text units 155-157).

To understand the emergent approach to strategy and relationships at this winery, Table 4.11 shows a lesser emphasis on strategy drivers – at 46% one of the lowest percentages of all the cases was devoted to these factors - and more on environmental, but again with a strong focus on relationships. It may be that the lack of data on strategic factors was due to timing: this company was interviewed shortly before a major announcement on its ownership structure and there may have been a sensitivity to over-disclosure at that particular time.

Table 4.11: Summary of Stage 2 data for Case # 4

(This case had a total of 224 text units)

Potential strategy-relationship drivers	**% of Text Units on sub-theme**	**Total % on this driver**	**Ranking of driver**
(1) Strategy drivers	3.6		
Actor based:	9.8		
Values	15		
Organisational Purpose	0.45		
Mission	2.7		
Resource based:	0		
Capabilities, competences	12		
Exchange	6.3		
Activity based:	0		
Knowledge & learning	0.45		
Value chain position	18		
		46%	**3**
(2) Relationship drivers	58		
Relationship formation and maintenance	4		
Relationships – planned	11		
Relationships - emerged	0		
Relationship operation	27		
Relationship outcomes	8.9		
Relationship dynamics	36		
		69%	**1**
(3) Environmental drivers	35		
Industry	20		
Macro-environment	24		
		50%	**2**

Of note were the low values for organisational purpose, knowledge and learning, and relationship formation and maintenance, though actors (ie people) were given emphasis within strategy drivers. This interviewee devoted little or no time to setting out statements about organisational objectives and resource links, nor to how relationships came into being. In terms of the model, the focus was on the importance of relationship themselves in driving strategy, and this is confirmed by the rankings which puts relationship drivers (1) ahead of environmental factors (2) - the highest weighting given to environmental factors - and then strategy (3). However, in Stage 2 relationships involved planning rather than being allowed to emerge (11 as against 0). This interviewee had been in the industry a long time and had seen and experienced the dynamics of relationships, which were also given relatively high emphasis. In summary, this was an older firm still using traditional approaches which had stood them in good stead and which they saw little reason to change fundamentally.

4.5.5 Case #7

This case firm was a large and long-established one, which had shown a corporately controlled, arm's length emphasis in Stage 1. Stage 1 showed that as the largest New Zealand wine company it had tight management control of business relationships, albeit with a strong emphasis from the interviewee on people and ethical business dealings, and clearly defined strategies and processes. A publicly-owned with a strong corporate culture and structure, the firm had grown up with the industry. It saw itself as a leader of the industry and, whilst it had shared with and helped the rest of the industry, its view of relationships was pragmatic and shareholder driven. Strategy was clearly defined, intentional, but subject to the activities of the global market for corporate control. Stage 1 had shown little evidence of committed or dependent relationships. In Stage 2, the emphasis remained on its leadership position in terms of market and industry power and on stability and shareholder value. The following quotes reflect the firm's robust view of itself:

> I don't think any of our business, your question was what are THE most important ones, there are no most important ones (Case #7, text unit 140).
> …
> No we don't have to screen - we know exactly where we want to be (Case #7, text unit 151).
> …
> Well we have an expectation of them, of excellence and providing excellence and they understand change, we want stability in a dynamic relationship (Case #7, text unit 163).
> …
> People like working with [*firm #7*] because it's successful so, we're a very successful organisation (Case #7, text unit 171).

In probing the firm's relationship approach further, the Stage 2 data display in Table 4.12 gave equally strong emphasis to strategy drivers and to relationship drivers. Environmental factors were given comparatively less emphasis, with the industry discussed more than the wider environment. Strategy drivers emphasised people and values more than a transactional approach might have suggested as, indeed, did the importance placed on relationship dynamics. However, relationships were planned rather than being allowed to emerge here (22 compared with 4.3) and this indicated a corporate, strategic approach to business relationships.

Table 4.12: Summary of Stage 2 data for Case # 7

(This case had a total of 184 text units)

Potential strategy-relationship drivers	% of Text Units on sub-theme	Total % on this driver	Ranking of driver
(1) Strategy drivers	27		
Actor based:	14		
Values	35		
Organisational Purpose	4.3		
Mission	5.4		
Resource based:	0		
Capabilities, competences	14		
Exchange	19		
Activity based:	0		
Knowledge & learning	14		
Value chain position	16		
		80%	**1≈**
(2) Relationship drivers	59		
Relationship formation and maintenance	23		
Relationships – planned	22		
Relationships - emerged	4.3		
Relationship operation	14		
Relationship outcomes	7.6		
Relationship dynamics	27		
		81%	**1≈**
(3) Environmental drivers Industry	24 15		
Macro-environment	4.3		
		38%	**3**

The timing of this interview was just as major ownership changes were underway, and could explain the focus on strong internal strategy and tight (implying well-managed) links with relationship partners. In terms of the model, the rankings show relationship (1) factors very slightly ahead of internal (2) and much less weight given to environmental ones (3). In summary this case represented a large company with market and industry power but one that needed to maintain relationships in the New Zealand industry and with local suppliers in order to compete internationally.

4.5.6 Case #8

This case firm was another long-established industry player, also in the large category, whose founder was still at the helm and was a well-respected 'elder statesperson' of the industry. The company had a very strong culture, led by the owner, based on the traditional social relationships and values of the industry, although (s)he admitted the industry was less social than it had been. In Stage 1 the firm was strongly committed to a relationship-based approach to carrying out strategy, which was focused on the differentiation of its award-winning wines, using some value-creating and many committed and connected relationships. Using innovation, readily shared in the wine area, and now in the financial structure of the company, the firm was clearly set for continued growth. Maintaining the growth path of the company, there was no clearly predominant approach in terms of emergent or intentional strategy. Its strongly relational approach in Stage 1 was confirmed in Stage 2. There was still no question about the critical relationships for the company:

> The contract grape growers...Well grapes are the foundation of the industry...grape growers are purely and simply growing good grapes, we keep them informed of our export markets and have technical functions to show them how to grow good grapes, we show them the finished product and...we keep the growers informed of the importance of growing good grapes and that's about where it starts and ends, letting them know. It's a close technical relationship, we give them a hell of a lot of support and we keep them informed of our, the company, staff changes, where we're exporting to, how things are going generally (Case #8, text units 138-140).

Values were emphasised as were people, relationships were dynamic, but again with a focus on planning. Although of less importance, industry factors were also important. These emphases are confirmed in the rankings which again gives more weight to relationship factors (1), less to strategy (1) and lower to environmental (3). Table 4.13 shows the data summary for this case.

Table 4.13: Summary of Stage 2 data for Case # 8

(This case had a total of 233 text units)

Potential strategy-relationship drivers	**% of Text Units on sub-theme**	**Total % on this driver**	**Ranking of driver**
(1) Strategy drivers	6		
Actor based:	15		
Values	24		
Organisational Purpose	1.7		
Mission	4.3		
Resource based:	14		
Capabilities, competences	3.4		
Exchange	9.4		
Activity based:	7.7		
Knowledge & learning	5.2		
Value chain position	9.4		
		62%	**2**
(2) Relationship drivers	68		
Relationship formation and maintenance	19		
Relationships – planned	10		
Relationships - emerged	3.4		
Relationship operation	26		
Relationship outcomes	20		
Relationship dynamics	38		
		79%	**1**
(3) Environmental drivers	29		
Industry	48		
Macro-environment	10		
		56%	**3**

In summary, this was a large player that remained reliant on its relationships, especially since it was still privately-owned. Change would be inevitable with the eventual change of leadership.

4.5.7 Case #9

Like Case #1, Case #9 used a hybrid mix of approaches to its strategies and relationships. Both used arm's length transactions with others and both, for example, bought grapes and juice on the spot market at a time when the trend was to either expand internally and grow more or to form close alliances with growers to secure access to quality crops. Both had products in all parts of the quality range. Both were also working in innovative local and international marketing and distribution relationships which they nurtured closely. In Stage 1 Winery #9 was a long-established large player in the industry which had shown a more innovative, mixed approach to relationships, labelled 'hybrid', implying a purposeful mixture of transactional and relational styles. Its strategies involved innovation in channels and the use of joint ventures in production and resource leverage. It had had many committed relationships with some dependent and value-creating. This firm had changed its approach over the years – having grown with the rest of the industry based on resource and knowledge-sharing, it now used those skills in new business areas such areas as sales and distribution. Strategy had been a mix of intentionality and emergence, with the latter (opportunity-driven) seeming to predominate recently. By Stage 2 it had taken on major equity partners and it had recently been sold and the key family principals had gone and started up another winery.

> It had already changed into a different company since, two years ago. Since that period the company's been restructured, we've purchased [another wine company] Wines and also the company was floated on the market in December xxxx. The shareholding had changed, no blood family now (Case #9, text unit 3)…At this stage we don't plan to expand that much further but opportunities do arise. At the moment we're quite happy to sit on, develop those current vineyards and then you know, seize other opportunities that can arise as the industry starts to grow and things get a bit tighter for some companies you get amalgamations, you know those sort of things could happen (Case #9, text unit 51).

Table 4.14 shows the data summary for this case.

Table 4.14: Summary of Stage 2 data for Case # 9

(This case had a total of 239 text units)

Potential strategy-relationship drivers	% of Text Units on sub-theme	Total % on this driver	Ranking of driver
(1) Strategy drivers	7.1		
Actor based:	1.7		
Values	2.5		
Organisational Purpose	5.4		
Mission	2.5		
Resource based:	27		
Capabilities, competences	12		
Exchange	7.9		

Activity based:	9.6		
Knowledge & learning	0		
Value chain position	17		
		67%	**1**
(2) Relationship drivers	52		
Relationship formation and maintenance	1.7		
Relationships – planned	1.3		
Relationships - emerged	13		
Relationship operation	24		
Relationship outcomes	15		
Relationship dynamics	38		
		63%	**2**
(3) Environmental drivers	5		
Industry	33		
Macro-environment	10		
		47%	**3**

To highlight the purposeful mix of approaches at Winery #9, the table shows that emphasis was given fairly equally to strategy and relationship drivers, with less focus on environmental factors. Of importance within strategy factors were its value chain linkages and the resources, especially grapes, it acquired. Relationships emerged, however, showing this firm's experience of opportunistic relationships which were underway at the time of the second interview. Relationships were also highly dynamic. In terms of the model, the rankings show strategy (1) and relationship drivers (2) are close in importance, with environmental relatively less so (3). In summary, this older company had learned and grown with the industry and had used a mix of approaches to achieve large size within the New Zealand industry.

4.5.8 Case #10

Also a medium-sized winery, this firm was younger than the others. It had shown a relational approach in Stage 1, which it used quite explicitly for its growth strategies. Its relationships were mostly connected but with dependence only in activity areas it could not control itself and commitment where this assisted capacity utilisation and local industry development. On finer-grained probing in Stage 2, the relationships themselves were less important than the internal strategy. It made extensive use of local social networks but did this for two reasons. One was to have control, face to face and hands on. The company had its own sales force and worked very closely with all of its distributors, negotiating carefully and monitoring them. The other reason had been the strong leadership role the firm had taken in order to grow the industry in its particular region, seeing itself as the focal firm. The key strategy here had been to process grapes into wine for forward integrating grape growers, thus building up a local critical mass in the industry and putting the region 'on the map'. The strategy of using a relationship approach was very clearly intentional and articulated. In terms of the company's critical relationship, it was self-reliance, not on anyone else:

> You are not allowed to lose sight of quality, for us. That's why we are really going out there a lot, we are aware of what other people doing, what are the Chileans doing, what are the South Africans doing, the Australians, and I come back and say look we have to be ready. *So it's the external international competition? * That's what we are really talking about (Case #10, text units 113-115).

Importance was given to the personal values of the owners and the competence and capabilities Case #10 acquired. Relationships were planned – there was no question of them simply emerging. Emphasis was given to relationship operation and their dynamics. In terms of the model, there was a clear hierarchy of importance placed on strategy (1) drivers, followed by relationships themselves (2) and then environmental factors (3). Table 4.15 shows the data for this case.

Table 4.15: Summary of Stage 2 data for Case # 10

(This case had a total of 169 text units)

Potential strategy-relationship drivers	**% of Text Units on sub-theme**	**Total % on this driver**	**Ranking of driver**
(1) Strategy drivers	34		
Actor based:	14		
Values	27		
Organisational Purpose	4.7		
Mission	4.7		
Resource based:	11		
Capabilities, competences	28		
Exchange	1.2		
Activity based:	32		
Knowledge & learning	2.4		
Value chain position	8.3		
		73%	**1**
(2) Relationship drivers	34		
Relationship formation and maintenance	12		
Relationships – planned	7.1		
Relationships - emerged	0		
Relationship operation	28		
Relationship outcomes	7.1		
Relationship dynamics	20		
		53%	**2**
(3) Environmental drivers	27		
Industry	22		
Macro-environment	2.4		
		40%	**3**

In summary this winery used its relationships intentionally in the activity areas it could not control itself, in order to grow its local industry which would also benefit Winery #10.

4.5.9 Case #14

Finally, Case #14 was another younger medium-sized firm which took a more transactional approach based on the Stage 1 data. Wholly-owned by a large international diversified drinks business, it had been established in the 1980s to provide a particular product to the portfolio of its parent company. It was run by a person with strong connections in the local industry but all aspects of its relationships were predicated on what was required to fulfil its quality production mandate from within the New Zealand context. Its relationships were almost entirely internal but it was dependent on grape growers who provided the crucial input to Winery #14. Thus relationships were dictated by the structure of the local industry and environment, to produce a New Zealand product by a local team, managed locally. Table 4.16 shows the data summary for this case.

Table 4.16: Summary of Stage 2 data for Case # 14

(This case had a total of 353 text units)

Potential strategy-relationship drivers	% of Text Units on sub-theme	Total % on this driver	Ranking of driver
(1) Strategy drivers	20		
Actor based:	19		
Values	3.1		
Organisational Purpose	3.1		
Mission	0.28		
Resource based:	22		
Capabilities, competences	13		
Exchange	16		
Activity based:	8.5		
Knowledge & learning	9.9		
Value chain position	25		
		85%	**1**
(2) Relationship drivers	59		
Relationship formation and maintenance	5.1		
Relationships – planned	12		
Relationships - emerged	0.85		
Relationship operation	23		
Relationship outcomes	8.2		
Relationship dynamics	17		
		80%	**2**
(3) Environmental drivers	29		
Industry	16		
Macro-environment	2		
		43%	**3**

Crucially, all resources had been provided through the parent company or were generated by the New Zealand company itself, except a large proportion of the important local resource, grapes. Strategy was allowed to emerge locally but with direction from the parent company. The critical relationship was that with the parent company:

> The people that we work for now are very good. But they could change tomorrow. You never know. It's a pretty small pool. So that is probably the main one as far as, from where I sit (Case #14, text unit 348).
>
> …
>
> Growers...it's good to have more mature vineyards but at the end of the day if that fell apart you could get more growers. Although it's very important it's not as critical as what could happen (Case #14, text unit 350).

In terms of the model, the Stage 2 data for case #14 gave more or less equal weighting to strategy (1) and relationship (2) drivers with emphasis on resource acquisition and value chain connections (though the data were not particularly emphatic) and this interviewee devoted a low percentage of attention to environmental factors (3). Relationships were planned and reasonably stable. In summary, this winery's use of relationships in strategy was highly focused on resource inputs, its *raison d'être*. This winery's approach may well be seen more in future as more New Zealand wineries are bought by global drinks companies as production units in their global portfolios.

4.6 Confirmatory Stage: Across Case Data

Tables 4.10 to 4.16 were used to compare the data across cases, and to gauge support for the model and its components, and to do this patterns were identified. From those tables three clusters of approaches can be identified:

- In cluster 1, strategy drivers are most important, followed by relationship, then by environmental (Cases 1, 9, 10 and 14);
- In cluster 2, strategy and relationship drivers are more or less equal in importance followed by environmental (Cases 2 and 7);
- In cluster 3, relationship drivers are given most emphasis, followed more or less equally by strategy and environmental (Cases 4 and 8).

Table 4.17 shows the rankings in summary.

Table 4.17: Summary of Stage 2 relationship driver rankings

Case	**Rankings of relationship drivers**		
	Strategy	Relationships	Environment
1	1	2	3
2	1=	1=	3
4	3	1	2
7	1≈	1≈	3
8	2	1	3
9	1	2	3
10	1	2	3
14	1	2	3

The common theme to all but one of these of the cases was the lower overall emphasis given to environmental factors. When these factors are aggregated, they give most overall weight to strategic factors driving relationships, then the experience and dynamics of relationships themselves, followed by factors in the firm's external environment. Overall the Stage 2 cases showed that, within this industry there was a very close link between strategy driving relationships and strategies and relationships themselves. Whilst some saw separateness between the two, some did not. For all but one, a long time industry player, the industry environment was a much less important driver.

4.6.1 Change between T1 and T2

A comparison between the case companies' approaches to strategy and relationships across the two time periods of the data collection stages allowed an analysis of firm and industry level change. Case #1 is excluded from this section of the analysis as it was not part of the Stage 1 sample.

Case #2

In terms of adjustments between Stages 1 and 2 the interviewee explained changes among the winery's agents and distributors both in New Zealand and the UK due to takeovers, changes in ownership structures at other wineries, a new staff member at the winery's Marlborough office to handle grower relationships, and the formalisation of the winery's vineyard shareholding structures. In Stage 1 Winery #2 had been strongly transactional. It had grown and developed from the historical beginnings of the industry, was an embedded industry player but had changed its view of the industry and had major plans to continue its own internally-driven and carefully controlled expansion. In Stage 2 whilst the discussion of the environment and the industry was there, it was strategy drivers and more relationships which were of importance. The firm was more relationship based than it appeared to be in Stage 1. There may have been a research effect here, in which asking the question makes the interviewee more aware of the issues and therefore more likely to bring it out in their discourse.

Case #4

Between Stages 1 and 2 Winery #4 reported changes to its relationships in terms of more joint ventures – in wine processing in Marlborough and in vineyards also in that region. The latter had increased the winery's control over its grape supply from 50/50 to 70/30. It had added some overseas agents and added a new winery to its local group. In terms of development over time, Winery #4's growth and success had gone in parallel with that of the industry itself. Although the co-founders had now sold out to another wine company with which it had an existing relationship, the key emphasis remained on relationships themselves though with more of an element of intentionality and planning.

Case #7

Reinforcing the stability theme, there were few changes at Winery #7 between Stages 1 and 2. The main change was that a group of wineries had come together with Winery #7 leading it to distribute their wines in New Zealand. Winery #7 was also undergoing a transfer of ownership at the time of the second interview and was part of the major changes in corporate control being seen in the industry. Its transactional based approach in Stage 1 had moved to a more hybrid one in Stage 2 in which it emphasised relationships more in its strategies.

Case #8

There was little change here other than the successful major floating of a joint venture vineyard. At Winery #8 there would be continuing growth, with strategic stability and strong relationships until succession became an issue.

Case #9

This winery had gone through major ownership changes. It had bought another New Zealand winery and itself been floated and bought. Its distribution joint venture company had now been internalised as part of the purchase and overseas distribution was now also handled by the new owner. For Winery #9 change had already occurred and it was expected that future initiatives would come from the new parent company, using a more hybrid approach, that is an intentional mix of relationships and internal approaches to strategy.

Case #10

Between Stages 1 and 2 the main changes here were that the winery now had 60% of its sales in exports and the contract growers had gone. The winery was making wine for a co-operative of growers as well as individual companies and there had been changes to some of the overseas agents. Winery #10 was clearly focusing on the same objectives and strategy – independence and leadership within its local region, using relationships to achieve this.

Case #14

The main change was that the 80% owner now owned 100% of the winery and the number of contract growers had been reduced to 5. Winery #14 was unlikely to change: continuing its mandate from its parent, with an emphasis on a more transactional approach to its business interactions.

So three firms appeared to have changed their relationship approach over the period of the research. Of those firms which did not appear to have changed their relationship approach, the strategies of Wineries #4 and #8 had used the industry's traditional relational approach and emerged with the growth of the industry, following opportunities and no change was envisaged to that. Winery #10 was intentionally using an embedded, social approach to achieve the specific objective of building the local industry. It was consciously staying with that relational approach. Winery #14's strategy, using an arm's length approach to business relationships, had emerged and developed and only ownership changes would change this approach currently. In terms of those firms which had changed their relationship approach, Winery #2 had consciously chosen to become more transactional and to discontinue strong reliance on close social relationships, but with a more recent move towards recruiting more growers again. Winery #7 had emphasised control in arm's length relationships but was now using a mix of strategic and relationship approaches.

> Which, otherwise, nothing much there and they've changed quite massively and are changing constantly at this time … but its nothing other than internal, otherwise nothing changes (Case #7, text unit 7).
> …
> It could be either. I mean we have a lot of alliances with other companies but personally we have operated on an alliance basis (Winery #7, text unit 138).

Winery #9 had followed opportunities for growth, moving away from early social approaches to a more hybrid approach to relationships, taking on shareholding partners but maintaining close relationships with suppliers among others:

> I suppose that [case #9] now that it has already changed into a different company since, two years ago. Since that period the company's been restructured, we've purchased [another wine company] … and also the company was floated on the market in [date]. The shareholding has changed, no blood family now (Winery #9, text unit 3)
> …
> Twelve months you would never have thought the changes would happen so much. Allied Liquor Distributors display in the shop, the whole thing has been thrown into chaos a bit. So it has all been restructured differently so there's a lot going there on at the moment. You are probably aware that Montana is changing so (Winery #9, text unit 37).
> …
> It is basically, yes, so we're sort of looking at opportunities to come our way which we haven't finished yet (Winery #9, text unit 39).

Bearing in mind the problem of recall bias, when asked about their view of business relationships, the reported emphasis among the case firms was clearly positioned in either social or resource/activity terms or a simultaneous mix of both. Thus the respondents were likely to view their interaction with other firms and the value they got out of them through that particular lens. Table 4.18 below summarises the change, if any, in predominant relationship approaches between Stages 1 and 2. This analysis is based on the dominant style and is not meant to present these as pure types or categories, but provides support for the view that no one single explanation of relationship approaches will suffice (Coviello, Brodie et al. 2002). It shows that most were maintaining their approaches to relationships though interestingly Cases #2 and #7, which had reported more transactional approaches to their business relationships in Stage 1 reported that they were now making more intentional use of their relationships in strategy in what might be referred to as a hybrid approach.

In terms of changes which occurred at the industry level between Stages 1 and 2, one of the most noticeable changes that emerged was that of ownership. By Stage 2 three out of the eight case firms (#4, #7 and #9) had undergone or were going through major changes in ownership. All of the Stage 2 interviewees alluded to new entrants in some way, whether as a problem for quality in export markets (#8), as having very different objectives in the industry, positioned as 'business' versus 'lifestyle' (#2), or as helping to develop and grow the industry (#10).

Table 4.18: Changes in predominant relationship approaches

Relationship approach	T1	T2
Relational	4	4
	8	8
	10	10
Transactional	2	-
	7	-
	14	14
Hybrid	(1)	1
		2*
		7*
	9	9

* = Changed approach

The other major change was in the emphasis on relationships with grape growers in Stage 1, which was almost unanimous, to a mix of those who still saw those as crucial (#8 and #9) and those who now saw international distribution, sales and branding as the most important (#2, 4, 10 and 14). Firms #1 and #14 focused on the roles of their respective parent companies to do this.

> And you know, the way these people operate and where they put the wine and where it's sold, how that's managed is critical for your brand. If they start dumping it and discounting it and doing silly things you can do yourself a lot of damage (Case #14, text unit 352).

4.6.2 Conclusions on the model

Overall conclusions to the data analysis are drawn at the end of this chapter but some preliminary remarks are offered here. Stage 1 responded to Research Questions 1 and 2 and Stage 2 has responded to Question 3, explaining the link between, understanding and use of relationships in strategy. This is achieved through an analysis of what was driving relationship use in strategy for the Stage 2 case firms. Overall, the model was supported, but with less emphasis on the environment. In terms of the importance of strategy driving relationships or relationships themselves driving their use, the following conclusions can be drawn on each.

Strategy drivers of relationship usage

The levels of importance ascribed to strategy drivers were wide though they showed the importance of 'actors' and of 'values'. 'Organisational purpose' and 'mission' were not alluded to much and seem to have been given less importance in this context, though it may be simply that these were not made explicit by the interviewee rather than not existing. In terms of the importance of resources and activity based drivers, the ranges were smaller here and showed more consistency. Table 4.19 below relates the drivers to strategies pursued by the companies and shows that all but Winery #10 had a focus on resources, with an even balance between those in which the driver was purely firm strategy and those which were relationship-driven. All were using relationships in their activities but these were of less importance than resources which were the primary focus.

Table 4.19: Stage 2 strategies and focus of relationships

Case no.	Key Driver	Strategy focus	Focus of relationships
1	Strategy	New company building value system positions	Resources and activities
2	Strategy and Relationships	Medium-sized company controlling growth through brands	Activities and then resources
4	Relationships	Medium-sized company controlling growth through leverage and innovation	Actors and resources, and then activities
7	Strategy and Relationships	Large company tightly controlling suppliers and with economies of scale	Activities and then resources
8	Relationships	Large company growing independently through leverage	Actors and resources, and then activities
9	Strategy	Large company growing through extensive leverage and channel involvement	Resources and activities
10	Strategy	Medium-sized company controlling growth independently	Activities
14	Strategy	Medium-sized company with quality production mandate	Resources

Relationship drivers of relationship usage

The range of importance ascribed to factors in the model was widest on relationship drivers. Some interviewees did not place significance on their business relationships, whereas others saw them as being very important. Considering that this was the stated focus of the study and the questions to the interviewees, it is noteworthy that some talked readily about their business relationships and used them and some did not. 'Relationship dynamics', the changes in relationships, tended to match the overall pattern under this heading, ie whether they were identifying and using relationships in their strategies or not, and had the largest range of counts. Three firms had activities as their primary focus, driven by relationships. Two firms were strongly relational and put primary importance on actors ie other people.

Environmental drivers of relationship usage

Again, there was much differentiation in the weight given in responses in this area. The largest range was in the importance of 'industry factors', but these were clearly seen as third in order of priority in terms of the factors driving strategy and relationships for the interview firms.

4.7 Conclusions on the research questions

The results of the first, exploratory stage of data collection among 17 case study firms provided:

- An analysis of each case study firm and how they saw their strategies and relationships in the industry;
- A description of the New Zealand wine industry and its strategies and relationships;
- Typologies of strategies and relationships and how they were used in the industry.

Research question 1

Diverse views and approaches were found, ranging from deeply committed and value co-creating relationships to their selective use, through to avoidance of such dependence. Understanding of relationships was based on the nature of the industry, for example, its small size, its historical close collaboration and the limited land-based resource requirements for production. Understanding was also based on personal values, experience or approaches to relationships, thus many of those who had worked co-operatively continued to do so, whereas others changed their approach to gain control, still others had grown by and maintained an independent stance, only becoming involved in relationships where they had to. Thirdly, understanding was based on firm level strategy, especially those around grow/buy/connect options, and whether the firm wished to control resources and activities and had the means to do so, or used relationships to achieve strategic goals.

Research question 2

Based on the firm's understanding, many permutations of internalised control, outsourcing and relationship approaches to strategies were identified. These were shown to be focused on:

- Resource-based input requirements, for examples grapes, glass, barrels, corks, land, technical capabilities.
- Activity-based capability related strategies, for example internalisation or integration; capitalisation through investment partners; distribution channel connections.
- Actor-based values, for examples long-term commitment, friendship, trust, industry traditions, compatible business (or other) objectives.

There were three levels of factors which, singly or in combination appeared to drive the diverse use of relationships by firms in the industry: firm level strategy influences, relationship level influences and industry environment level influences.

Research question 3

In testing a model of what could explain the link between firm understanding and use of relationships in strategy, three sets of drivers were identified and their relevance or influence tested with a sub-set of 8 case study firms. This showed that the use of relationships in strategy was primarily driven by the internal strategy of the firm itself, but in very close combination with its networks of relationships. The industry environment was of less importance as a driver to all but one. This showed the close link between strategy and relationships for the interview respondents. When this finding on the drivers of relationships is brought together with the firm's use of and value placed on relationships for each case firm and with its approach to strategy formation the following was found.

Diagram 4.4: Firm understanding and use of relationships in strategy

		Firm Use Of Relationships In Strategy	
		Intentional – primarily driven by strategy	Emergent – primarily driven by relationships
Firm Understanding of Business Relationships	Committed, dependent and value-creating	1. Relationships are valued, built and used intentionally (Cases #1, 2, 7, 9, 10)	2. Relationships are valued and used but allowed to emerge (Cases #4 and 8)
	Connected or avoided	3. Relationships are valued but not intentionally built and used (Case #14)	4. Relationships are not valued and not used (None)

Since the Stage 2 research interviews were about the use of relationships no cases were interviewed for Stage 2 (ie for a second time) that showed no interest in using business relationships. However, from Stage 1 Case #17 would fit into Quadrant 4, since it avoided relationships and aimed at self-sufficiency where possible. This diagram is discussed in more detail in the concluding chapter.

4.8 Chapter Summary and Conclusions

This chapter has set out the data collected for this study. Stage 1 described relationship functions and outcomes and Stage 2 tested the combination of these factors in a theoretical model to explain why such diversity arose. A model linking the insights from Stage 1 formed the basis of a second, confirmatory stage of data collection. The second stage found that there were clear clusters among the interview firms in terms of what were the key drivers of their business relationships:

- In one, internal strategy drivers were most important, followed by relational, then by environmental (Cases 1, 9,10 and 14);

- In a second, internal and relational drivers were more or less equal in importance followed by environmental (Cases 2, and 7);

- In a third case, relationship drivers were given most emphasis, followed more or less equally by internal and environmental (Cases 4 and 8).

Clear patterns emerged in Stage 2 in what firms were trying to do in their strategies within the industry and how these drove firms to use relationships in their strategies or not. All of the firms were managing growth (with an export orientation) in some way, funded either internally or leveraging external resources. Resources were clearly the key driving factor, especially access to grapes for increased production, followed by activities, particularly in distribution and marketing channels for increased sales. Thirdly, some firms (two) were especially motivated by ways of doing business, by their values relating to particular actors. The data set out in this chapter provide a ‘detailed and complete…full and revealing picture’ of what was found in the case companies (Maxwell, 1996: 95). The theory-building approach was based on the view that:

> The key function of rich data is to provide a *test* of one’s developing theories, rather than simply a *source* of supporting instances. (ibid)

The Stage 1 data were primarily textual with data reduction matrices and some text unit counts. The Stage 2 data were also text-based but with more explicit use of text unit percentages and counts, in order to assess the strength or relative importance of some of the key data. Thus the data analysis utilised a quantitative component of the study and addressed what Becker (1970) believes may be the “one of the greatest faults in most…case studies” namely the “failure to make explicit the quasi-statistical basis of…conclusions” (1970:81-82).

Overall, the data have revealed the diversity of strategic pathways and their implementation and management through relationships within a single industry context. They have shown a range of differing motivations in and views of the industry itself. Moreover, the data have demonstrated the diversity of the industry in terms of different ways of understanding business relationships, their use in strategy and perceived outcomes by exploring the types of relationships identified, and by theorising explanations of what might be driving this diversity. The next chapter draws overall conclusions for the study and offers directions for future research.

Chapter 5: Discussion and Conclusions

5.1 Introduction

This final chapter discusses the findings arising from the data analysis in Chapter 4 within the context of the literature and the research questions set out in Chapter 2, briefly assesses the methodology described in Chapter 3 and draws overall conclusions on the study. The findings offer a contribution to theoretical understanding of business relationships and their role in strategy. Implications are drawn for further research, for theory, managers and policy. Thus this chapter has three objectives:

- To discuss the findings from the data analysis in the context of the literature;
- To draw conclusions on the study's research questions;
- To offer implications and limitations of the study.

Chapter 4 gave an in-depth analysis of the nature of the interaction between strategy and relationships within an industry and found that, within the case companies, firm strategy was the primary driver of business relationships, influencing their formation, operation and perceptions of outcomes from them. Relationships themselves closely followed in importance and external environmental factors, though important, played a lesser role in this process. In terms of the ways in which the case firms used relationships in their strategies, there was a hierarchy of relationships use related to their perceived importance: first were those that secured resources, then those that enabled activities or facilitated capability development and thirdly, those related to other individual actors. The next section discusses these findings in terms of the focal literature reviewed in Chapter 2. The chapter then considers the research questions that guided this thesis and the support found for each of them. The discussion then turns to conclusions on the study's research objectives and the contributions of the research to theory. Finally, implications and overall conclusions are drawn.

5.2 Relating the findings to the literature

This section considers concepts from the literature in the key areas of focal theory for the study which were strategy, relationships and networks, and the industry as a context for these. Background theory on the general areas of convergence of the economic and the social and the concept of embeddedness set out in Section 2.1 are discussed in Section 5.5, which considers the study in the light of its contribution to the general research area.

5.2.1 Industry as the context for relationships and strategy

An important concept identified in Section 2.2 was industry boundaries and how they are blurring. The data showed that there was no consensus among the case firms on the nature of the industry: some saw it as part of the wider hospitality industry, some saw it as farming with add-ons, some saw it as a modern Fast Moving Consumer Good (FMCG) industry and others saw the different parts of their business as quite separate entities. There were differences in terms of the structuring of activities, especially to access resources and market channels, but there was agreement on the importance of these factors in strategy. So how activities and relationship process were organised were distinct but their criticality in strategy was found to be a strong common factor. The firms used a traditional geographical, recipe-type industry definition to identify with a group of competitors and collaborators, but the research has shown that a variety of views existed about the roles and functions of the networks and relationships in which they interacted. It may be that the older term of 'industry' will give way to the newer 'competitive system' since the interactions of the firms in this industry now encompass many more diverse activity areas, such as channels and markets not just growing grapes and the production process of making wine, and in many more parts of the country and globally. An example of this was Case #1 (Section 4.5.2) which had been intentionally established by its parent almost as a virtual wine company, sourcing its grapes externally, having wines made for it and working extensively in leveraged alliances and joint ventures from inception.

The research was informed by the notion of a clearly identifiable local population of New Zealand wine firms: there were clear patterns of entry and the nature of collaboration in industry and market development had shown a collective pattern. Performance in markets (the research had no access to firm level financial data) was similar in terms of positioning, pricing and differentiation. Though it is somewhat early in the industry's lifecycle to identify deaths (failures), and the industry has faced strong growth in global demand, there has been a more recent pattern of industry concentration, which is expected to reduce the number of players and lead to a rationalisation of the industry population. In terms of strategic groups, there were clear patterns of strategies among firms in the industry (as shown in Table 4.7) though the data showed that they achieved these in very different ways through their use or non-use of networks of relationships. In terms of manager's perceptions, there were indeed common views of the traditional industry - a recipe for how to structure and how to compete - but also quite substantial differences as to where and how it was developing. This was echoed in the narrative analyses which described different facets of the industry but identified common perceptions of the collective growth and development of the industry. Some emphasised its current positioning: niche, differentiated, quality-focused but needing to retain a competitive advantage in the face of the 'next new thing' in terms of wine regions in global markets. Where there were substantial differences was in the perception of change, its rapidity and the way forward strategically for this industry and whether or not collective actions and collaboration were still valid or were needing to be superseded (Lewis and Prince 2004).

In terms of the industry as a reflexively evolving dynamic, social system, the system was being opened up to more influence and players. This was seen in the mobility of staff, in international influences from visitors and customers and, crucially for the industry's future, from new entrants and new investment – especially takeovers by overseas investors. Views among incumbents interviewed were mixed on how much the system was shaping new entrants and how much they were reshaping the industry as a system. Whilst there were common themes on the identity and nature of the industry, there were outliers. There were no findings relating to a potential implosion, as in Easton et al's external threats to industry survival, and whether relationships would become less formal, defensive and mostly pragmatic (Easton, Burrell et al. 1993). This should be borne in mind for the future of the industry, however, since the other stages of industry lifecycle they identify - the community stage (the early Dalmatian families), the informal network (the early collective R & D and market learning), the formal network (the development of the legal industry structure and governance mechanisms in the Wine Institute and the export guild) and the club stage (which may well be the current stage, in which there are identifiable sub-groups – the large wineries, the medium-sized and the small plus the local regional groupings such as in Marlborough and Hawkes Bay) - would seem to have validity for the development of the New Zealand wine industry.

Concepts of social capital have been relevant for the industry in its past – as shown by the narratives around early industry cooperation and the commitment long-standing industry players retain to a collective way of doing business. Again, this may be breaking down and will need to be re-assessed. Finally, geography still matters very much. In a globally competitive arena, local factors are differentiating New Zealand wine – the "riches of a clean green land" (Winegrowers 2004), and indeed the geographical indications of the origin of products is now crucial in global branding and strategic trade policy (Barker, Lewis et al. 2001; Rabobank 1999). However, with global competition and increasing international ownership of New Zealand wine companies and their integration into global systems, the notion of a national industry may be under threat. At the domestic level, regions are focusing on their individual local development and cooperating to build location-related brands, especially in Marlborough, Hawkes Bay and Nelson (in this study), with longer-term trends perhaps indicating moves towards a quasi-*appéllation* system.

5.2.2 Approaches to understanding strategy

From Section 2.3, there was no agreed one way to explain strategy formation and sources of sustainable competitive advantage and the data showed that this was precisely how firms in an industry perceived this and enacted their strategy, confirming Fredrickson and Iaquinto (1989). Bringing data on the use of networks and relationships into strategy showed the diversity of views and approaches to resources and activities. The firms saw the domestic environment as relatively stable but with competition intensifying. International markets were turbulent and increasingly demanding. Some firms sought to control resources hierarchically (Winery #2 in Stage 1) but this was breaking down (Winery #2 in Stage 2). Only Winery #2 had instigated radical transformational change, with the vast majority of case firms undergoing incremental change. Classical approaches to strategy applied to a minority of the cases, which saw themselves as active, autonomous, self-sufficient firms (Wineries #7 and 14 in Stage 1). A number took a hybrid approach (Wineries #1 and 9), with many using versions of relational approaches to strategy (Wineries #8 and 10). Ownership and control of resources remained critical (as in the RBV) but brands and channels relationships were beginning to show signs of superseding these in importance, perhaps implying that the old bases for competing - the recipe - might indeed move from resources (with a farming, production focus) to capabilities (branding and relationship-building in international markets).

Further, relationship dynamics, experience, past strategy and performance, again in the context of networks of relationships, were shown to interact together in the firms' strategy processes and content. Strong support was found for the importance of the intentionality/emergence debate – some firms do indeed seem to allow strategy to emerge, especially in the context of their use of business relationships, others plan and intentionally build and use relationships in their strategy. An explanatory factor to add to the intentionality and emergence debate in strategic management would seem to be how embedded and dependent or interdependent the firm perceives itself to be or how independent it feels or aims to be. This research has also shown that the process of mutual adaptation and reaction in relationships is also to be seen in the focal firm's approach to strategy. The parallels in the two literatures on intentionality and emergence were critical in the theorising which came out of this study. There was clear evidence of relationship influences on strategy and perhaps the most important was the firms' experiences of business relationships and how this coloured their ongoing involvement in them. This resonates with the reflexive view of social systems and it may also relate to the wider prevalence of connectivity in the global context and the acceptance of relationships in business strategy as capabilities and resources – all of which could be seen as relational influences on firms. The data gave support for the strategic importance of relationships and confirmed the need for strategy theory to incorporate business networks.

5.2.3 Approaches to relationships and networks

From Section 2.4, issues of definition in the literature on networks were important both to build up a picture of a firm's interactions and to deconstruct what they saw going on in those relationships. Equally, issues of relationship content and boundaries were important from the literature to understand the range of ways in which the firm might see these. In the study network as a noun was more useful than as a verb. Interviewees were able to describe the structure and content of relationships much more readily than process – a factor which the research design and method had anticipated. Partners, timescales and relationship content and functions were identified in the data. Trust was readily acknowledged, either directly or using phrases such as 'his word' or 'a handshake'. In terms of external agency, contracts were widely used – perhaps more widely than the literature might have suggested – and an interesting finding was how often trust as the basis for a long-term relationship was accompanied by a contract. The RAA model was found to be valid as an analytical structure though the interviewees used (some prompted, some not) what they termed the 'value chain' as a structure to describe their various relationships and interactions. Whilst useful as a descriptive framework, RAA does not go deeply into explanation, notably at the strategic or the personal level. This research has shown that the diversity of approaches to and combinations of resource ties, actor bonds and activity links can be explained more fully by the addition of concepts which help to identify the nature, functions and contribution to strategic outcomes of those ties, bonds and links, based on the firms' perceptions of what they are doing and why. Whilst all of the RAA factors were indeed present in the research data, and are useful to deconstruct the levels and types of the firm's interactions, this study has shown how these factors relate to external and internal drivers of strategy and that there is a clear hierarchy of importance to firms of the RAA (resources are followed by activities and then actors).

The themes of planned intentionality and organic emergence of relationships and networks came out of the data strongly. Some strategic nets were identified and this concept was useful in discriminating among types of relationship groupings and to clarify these concepts. Thus Wineries #3 and 4 were long-standing members of a local R&D sharing group, Winery #17 was part of a local sales and marketing net, Winery #9 was in a distribution net and Wineries #10 and 11 were in local production nets. These kinds of networks are similar because they are strategically important initiatives for the wine companies concerned. They are different, however, in how they arose. The local R&D sharing net had developed historically, was not the planned implementation of a strategic initiative but had emerged out of a set of local social interactions to become a basis for strategic opportunities – such as the development of new wine styles, the use of new grape clones or new techniques. Similarly the local production nets had emerged out of local relationship interactions and were now being used intentionally as part of the firm's strategy (emergent relationship leads to strategic intention - Type 3 in Diagram 5.1). The local sales and marketing net, on the other hand, had been the product of a much more designed and planned strategic initiative intended to fulfil certain strategic functions for the focal firm (strategic intention leads to intentional outcome – Type 1 in Diagram 5.1). In the case of the distribution net, the strategy had emerged out of a strategy intended to fulfil other outcomes (strategic intention leads to emergent outcome – Type 2 in Diagram 5.1). Diagram 5.1 summarises the analytical categories identified and these are linked to relationships later in Diagram 5.3.

Diagram 5.1: How intentionality and emergence are linked

Type	Strategy		Outcome	Link with Diagram 5.4
1	Intentional	leads to	Intentional	Quadrant 1
2	Intentional	leads to	Emergent	Quadrant 3
3	Emergent	leads to	Intentional or Emergent	Quadrant 2

Structurally, there were many formal and informal approaches, though some common direct and indirect relationship functions – again, these categories from the literature were applied in the analysis and found to be useful. There were fewer value-creating and dependent relationships but many committed and connected ones, indicating many levels of involvement and the strategic importance but not perhaps criticality of many relationships. Again, these categories were useful in distinguishing between the relationships descriptively. Relatively few focal firms emerged, though ones that did, Wineries #7 and #10, did so because of their relatively large size in the national (for #7) or regional (for #10) contexts.

The network literature emphasises the multiple roles firms have in relationships and networks. This was substantiated in this study as case firms both collaborated and competed with horizontal business partners and industry dynamics, especially forward integration by grape growers, were making this more prevalent in the industry. This gave support for the complexity of change within the industry networks, as did the findings that two wineries had changed their approaches to relationships between Stages 1 and 2 of the data collection, both moving from a more transactional to a more hybrid approach. In terms of the content of relationships, the motivation to work closely in business relationships was also closely related to functional expectations and outcomes. If the relationship fulfilled a function effectively and had positive outcomes, it was continued and sometimes built upon. This was done reasonably intentionally. However, what is not covered so well in the literature from a network or a strategy perspective is the commitment to working in close business relationships that comes from personal values. This is somewhat dealt with in terms of social capital and the general area of embeddedness but these do not fully explain the personal philosophical motivations behind why some respondents were totally committed to working in a collaborative, relationship based view whereas one, at least, was totally against it. This finding relates strongly to the distinction that Ramirez makes between personal values and the value of things, and in which he agrees with the resource-based strategy authors (Barney 1991, for example) that:

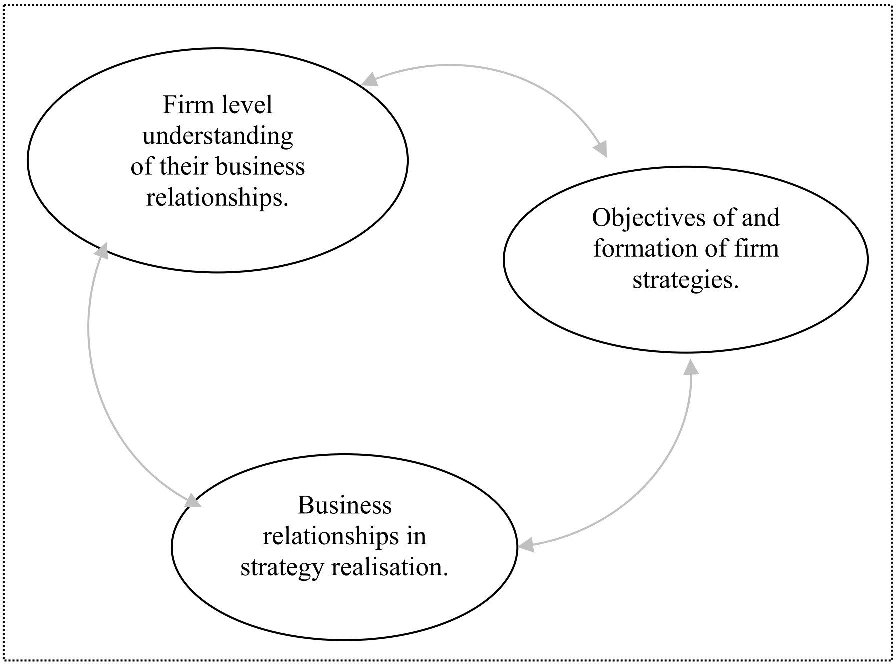
> Value...resides, and strategically this is crucial, in the actions and interactions which the acquired resource makes possible or supports...it is exchange, or interactivity, which is at the origin of both the rarity and utility upon which economic value rests. (ibid:51)

Furthermore, business managers may have difficulty identifying or deconstructing personal and commercial relationships in the business context. It may be that personal values align when actor bonds are formed but though these may be motivators in firm relationships, they do not become ongoing drivers of the business relationships which achieve strategic importance. However, in this research, a strong focus on values did not necessarily connect with a more dominant relationship based approach. This section has shown how the study used existing concepts from the literature and how its findings give support for subtle changes of emphasis in the two literatures in light of data bringing the two together. Moving on to relate the research findings to the combination of the two bodies of focal theory, as set out in Section 2.5 on the converging areas between strategic management and business networks, these are discussed in the context of the study's research questions in the next section.

5.3 Discussion and conclusions on the research questions

Chapter 4 offered some initial conclusions on the research questions. This section draws out overall conclusions on these and discusses them in relation to the conceptual model set out in Chapter 1 (Diagram 1.1). The findings relating to each question are reviewed and then presented in relation to two conceptual models developed from them.

Diagram 5.2: Conceptual model of the research



5.3.1 Research Question 1

How do individual firms within the New Zealand wine industry understand their business relationships?

In describing firm level understanding of their business relationships within the industry, diverse views and approaches were found, ranging from deeply committed and value co-creating relationships, to their selective use, through to avoidance of such dependence, and active pursuit of independence. Stage 1 showed that understanding of relationships was based on the historically collective nature of the industry, on personal values, experience or approaches to relationships, on firm level strategy, especially decisions around grow/buy/connect options, and whether the firm wished to control resources and activities internally and had the means to do so, or used relationships to achieve strategic goals. Relationships and firm approaches to them changed very little, though there was evidence in Stage 2 that more firms were recognising the need to use relationships in strategy.

5.3.2 Research Question 2

How does firm understanding of business relationships in this industry affect how they are used in strategy formation and realisation or not?

Building on Question 1, the firm's objectives and formation of their strategies in the context of relationships were influenced by what they thought they were doing with their relationships. This was found to affect strategy use in many permutations of internalised control, outsourcing and other strategies. For some case firms, business relationships simply were there, perhaps passively used, for others they were nurtured, built and actively used in value-creation. These were shown to focus on (in order of priority): resource-based input requirements, activity-based capability related strategies and actor-based values. These input factors operated at three levels which, singly or in combination appeared to drive the diverse use of relationships by firms in the industry (again, in order of priority): firm level strategy influences, relationship level influences and industry environment level influences.

5.3.3 Research Question 3

What explains the link, if any, between understanding of business relationships and their use in strategy?

In terms of explaining the link between understanding and use of relationships in strategy, what value firms thought they were getting out of their relationships, their use in realising their strategy was primarily driven by the internal strategy of the firm itself, but closely followed in importance and in very close alignment with its networks of relationships, and with the industry environment being of less importance in driving relationships in strategy. Many case firms built and used relationships intentionally and actively, others were active in some and more passive in others, still others (though few) avoided relationship use in strategy. Where relationships were actively used, there was a close link between strategy and relationships for the interview respondents. Firms in the industry were increasingly aware of or using a relational approach to strategy.

5.4 Conclusions on the research objectives

The previous section drew specific conclusions on the research questions, but in answering these research questions how have the research objectives been realised? Conclusions on the research objectives underpinning this study are now reviewed.

5.4.1 Research objective 1

To explain how firms in one industry understand, evaluate and use their networks of business relationships in formulating and realising their strategies.

This research has revealed the diversity in relationships and in the mechanisms generating that use within an industry. Rather than the industry players tending to adopt the same strategies and structures when in the same location, using follower strategies or a social model of shared values or industry recipe, there were many different views of whether and how to use relationships in strategy, what role they could play in strategy and what their value contribution might be. These findings indicate that decision makers in smaller firms believe themselves to act rationally and objectively, do make use of analytical tools (especially financial), do use gut-feel and intuition extensively and rely on past decision experiences (Jocumsen 2004). In terms of the industry, the view remains of a group of firms who perceive themselves to be in it and who do compete in similar products categories. However, this research has also shown that the individuals' views of an industry are changing and this may arise from the individual's experience of that industry and its relationships and networks. Diagram 5.3 gives an overview of the concepts developed in the study and integrates them to show the main conceptual pathways through approaches to and ways of understanding relationship use in strategy. This conceptual map of the overall findings relating to the research question integrates strategy and relationships and networks in a new way, bringing together the processes and dynamics of these interrelated factors to explain firm level relational behaviour within an industry.

5.4.2 Research objective 2

To contribute to strategic management theory (SMT) by linking strategy content and process in the context of business relationships.

This study has addressed the need outlined by Huff and Reger (1987) for studies which look at strategy formulation and implementation simultaneously and which consider content as well as process (Huff and Reger 1987), taking into account the content of strategies, the industry background, firm history and the nature of future strategic decisions. It has conducted research at the intersection of strategy and network research (McEvily and Zaheer 1999) and shown the context of strategy as practice, highlighting the practices-in-use within multiple levels of management action (Jarzabkowski 2004). This is done within an approach to strategy and network organisational forms which are embedded and at multiple levels among firms (Lewin and Volberda 1999). A key finding was that differentiation in the case industry was achieved through a number of different strategic pathways. SMT assumes that a successful differentiation strategy requires core capabilities backed up by unique resources. This is reinforced by the finding of this research that, whilst quality and innovation are a key strategic focus for New Zealand wine companies (and are thus threshold capabilities), very different pathways with very different resources and capabilities can deliver the core competences for achieving similar differentiation in wine markets, including the use of relationships The study has made a contribution to understanding of competitive heterogeneity (Miller 2003) based on the use of relationships in strategy within an industry. In terms of SMT, this research shows that a strategically important relationship does not have to be a strategic network – though this researcher prefers to refer to a 'stable interorganizational tie which is strategically important to the partners' rather than seeing it as 'a purposeful and conscious arrangement' (Möller and Svahn 2003). The study has reinforced the view that what is required in strategy is a dialectic view of intentionality and emergence in networks and relationships. In formulating their strategies firms require an understanding of the benefits and constraints of relationships and networks. As found among the case firms, a dialectic approach implies a mix of value co-creating relationships, combined with other more arm's length exchange and maintaining some loose couplings and some tight ones (Danneels 2003). In bringing together conclusions on the research questions and the research objectives, the discussion now offers two frameworks which have been developed from the study which form it key contributions to the literature on business networks and strategy.

5.5 Contributions

5.5.1 Contributions to theory

This research makes theoretical contributions to both the strategic management and business networks literatures based on an original investigation (Perry 2000). It adds to understanding of gaps in the literature on the link between business relationships and strategy, namely:

1. The link between firm understanding of business relationships and how firm strategy is formed;
2. The link between the realisation of firm strategy and its use of business relationships;
3. The link between how a firm understands and uses its business relationships in strategy realisation.

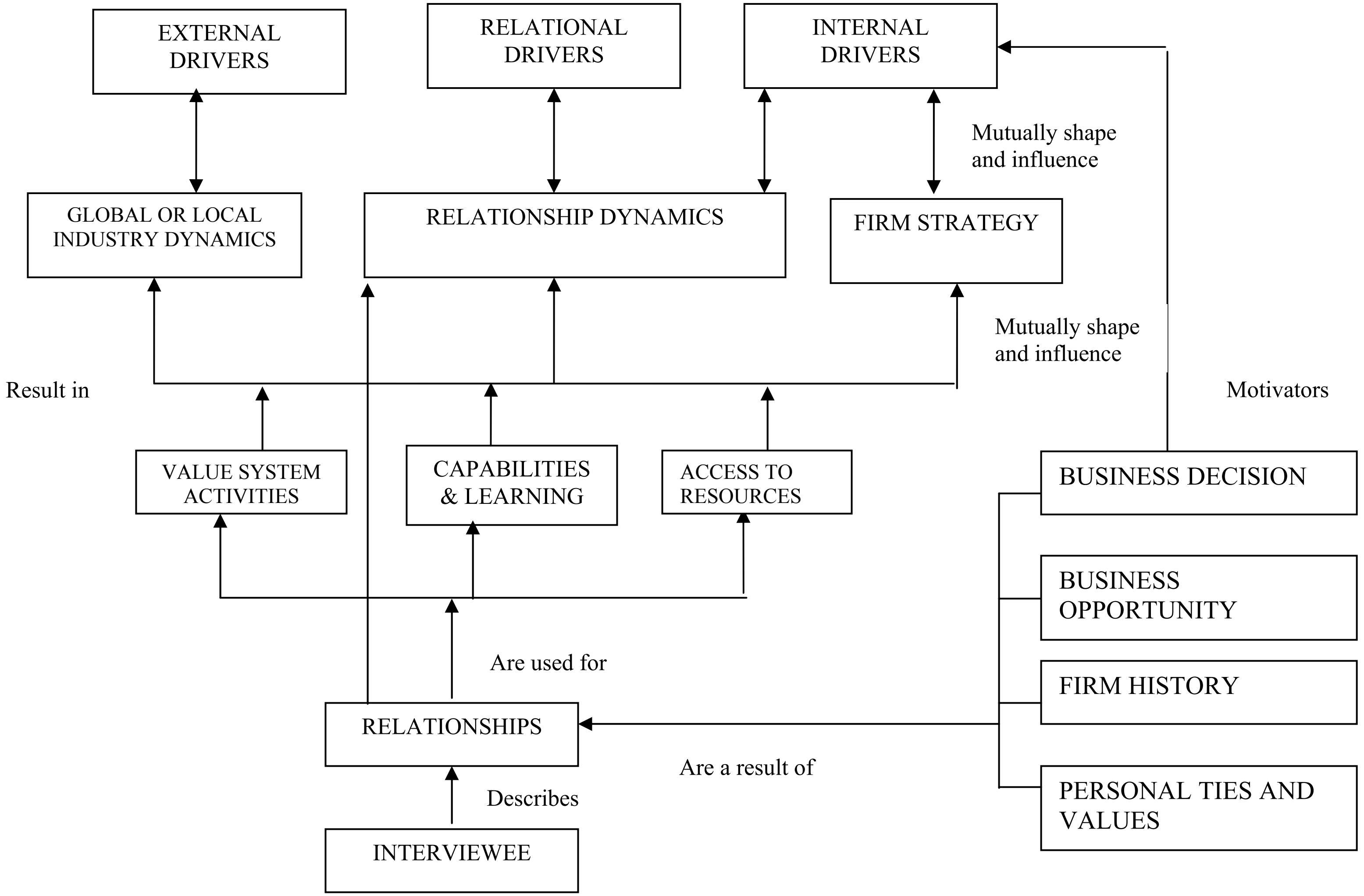
The study has brought together theoretical insights on the same phenomena from two important bodies of business management literature to extend theoretical understanding. The research makes two key contributions. Firstly, it has identified the generative mechanisms within the case study firms – either strategy or relationships themselves – which were driving the use of relationships and the diversity in the results of these drivers has been shown to be generated by the firm's approach to strategy formation and the role of relationships in its realisation. Secondly, the research has developed a model that helps to explain how and why firms differ in their use of relationship based on degrees of intentionality in building or merely using relationships. This first contribution is expressed in the integrating conceptualisation in Diagram 5.3, and the second the Diagram 5.4 which are now presented and explained.

5.5.1.1 Integrating strategy and relationship concepts

What is new about Diagram 5.3 is the way in which it integrates the interviewees' perspectives with already established concepts in the literature to build categories of relationship influencers and outcomes, showing how these develop and interact with and can drive strategy. Going from the bottom of the model, it begins with the main sources or motivators of business relationships identified by the interviewees, which arise from business decisions, business opportunities, the firm's (or industry's) history or personal ties and values. These categories may be found in the literature and are confirmed by the data in this study The relationships that result from these motivators are then used to carry out value system activities, to develop or bring in capabilities and learning or to get access to resources, and these categories were also identified in the literature notably in the RAA model. Note that the basic components of the RAA form the central part of this conceptual model. The activities, capabilities or resources that result from relationships shape and are also mutually shaped by the environment, other relationships or its own dynamics, and the firm's strategy. These in turn influence and are influenced by three key categories of relationship drivers in firm strategy, conceptualised as external, relational or internal drivers of relationships.

Thus the model integrates categories and concepts from the research process and findings with existing theory, and represents how this study has conceptualised and extended theory in business networks and strategy. The model uniquely combines concepts derived from the literature and the data from this study in a way to identify the factors and possible pathways by which firms firstly understanding their business relationships - resulting from the motivators and then being used for the RAA factors. The model then shows the factors that shape the use of business relationships – industry and relationship dynamics and firm strategy.

Diagram 5.3: Integrating strategy and relationship concepts



5.5.1.2 Firm understanding and use of relationships in strategy

The second contribution is a matrix (Diagram 5.4) theorising the findings in terms of how the firms understood and valued their relationships and how this was integrated into the firms' strategy processes. This matrix shows how the gaps in the literature on understanding the links between business relationships and strategy have been conceptualised and explained in this case industry, namely the link between firm understanding of business relationships and how firm strategy is formed (whether emergent or intentional), the link between the realisation of firm strategy and its use of business relationships (whether relationships are used in a connected, relatively uninvolved way or are committed, value co-creating relationships), and the link between how a firm understands and uses its business relationships in strategy realisation. Each of the quadrants of Diagram 5.4 is discussed and implications drawn. This diagram helps to clarify the different approaches identified in the literature on intentionality and emergence in business relationships and the link to strategy. The strategic management literature tends to the view that (relationship) strategies may be intentionally planned and enacted, whereas the business networks literature focuses on the assumption that relationships are there and may be used or not. This diagram has brought these concepts together to show how strategic opportunities may emerge from intentional, designed, planned initiatives, which can include plans for relationship development. Conversely, strategic opportunities may arise from new or ongoing relationships that do not emerge from any strategic initiative. These approaches are presented in a stylised form here as a result of the tendencies identified among the firms in this study.

Diagram 5.4: Firm understanding and use of relationships in strategy

<table>
<tr><td></td><td></td><th colspan="2">Firm Use Of Relationships In Strategy</th></tr>
<tr><td></td><td></td><td>Intentional - primarily driven by strategy</td><td>Emergent - primarily driven by relationships</td></tr>
<tr><th rowspan="2">Firm Understanding of Business Relationships</th><td>Committed, dependent and value co-creating</td><td>1. Relationships are valued, built and used intentionally</td><td>2. Relationships are valued and used but allowed to emerge</td></tr>
<tr><td>Connected or avoided</td><td>3. Relationships are valued but not intentionally built and used</td><td>4. Relationships are not valued and not used</td></tr>
</table>

Quadrant 1

In this quadrant there is a strong positive link between strategy and business relationships. Relationships in this quadrant are valued and intentionally used in strategy formation and realisation. Relationships are driven by strategy and committed, dependent and value co-creating relationships are valued and built. In this cell are represented firms which show a preference for following intentional approaches and achieving the intended outcomes.

Quadrant 2

In this quadrant there is a weaker positive link between strategy and business relationships. Relationships in this quadrant are valued and are driven by the relationships themselves: they are not intentionally built in strategy formation but are valued and allowed to emerge and thus can be identified as having a role in strategy realisation. Firms in this cell would tend to allow their relationships to emerge or would develop an intentional strategy arising from the opportunity.

Quadrant 3

In this quadrant there is a more negative link between strategy and business relationships. Here, where relationships are used they are connected, driven by strategy and are valued but not intentionally used in strategy formation or realisation, and clear patterns of their non-use can be identified. For firms in this quadrant there may be outcomes that emerge from relationships but not from a specific strategic imitative.

Quadrant 4

In this quadrant sits the fiercely independent or isolated firm which avoids relationships in strategy if it possibly can, taking an internalised approach to strategies. These firms aim to be self-reliant in terms of resources. Here there is no link between strategy and business relationships and where relationships are identified as having no role in strategy formation or realisation. In this quadrant there may be deliberate non-use of relationships.

Importantly, the matrix accounts for all cases, including negative ones which could have been discrepant data (especially Case #17) but turned out to be useful in clarifying explanation of the use or non-use of relationships in strategy. These findings are based on data from firms within one industry but the above quadrants could now be expressed in general theoretical statements and tested on other industry cases or cross-sectional samples. This new conceptualisation of the links between strategy and relationship use in strategy has not been done before. It builds on and extends understanding (Burawoy 1991; Orlikowski and Baroudi

1991) of relational approaches to strategy and the role of strategy in networks by providing new data to show how the diversity of usage of relationships was identified in an industry.

In terms of our understanding of industry, this research has clarified that, if there is no longer a consensus on the concept of industry boundaries by which to define groups of firms, then, in keeping with newer concepts from strategic management (Helfat, 2003; Möller and Svahn, 2002; Parolini 1999; Teece, 1997; Winter, 2003), the development of strategic bases on which to compete now needs to take into account sets of capabilities arising from networks of relationships and not simply positions based on resources or activities performed. The study's contribution has thus been to bring a relationship perspective to concepts of industry and strategy formation within that context. Further, the combination of concepts from strategic management and business relationships has provided richer insights into firm use of relationships in strategy. The study has added concepts of levels and perception of dependence, independence and interdependence (Campbell 1985; Holm et al 1999) to understanding of strategy and deeper insight into general concepts of competition, and cooperation (Campbell 1985) to relationships.

The study has contributed to understanding the balance between economic and social views of strategy and relationships. No single approach will do since the reality is that firms take a transactional approach to relationships **and** a socially embedded approach to them, sometimes simultaneously in the same firm. In terms of intentionality and emergence, the study has shown how these influence relationship use in strategy, though the terms passive and active may be more appropriate in relationships. Whilst the findings confirm that intentionality arises out of emergence, the study has shown that firms' use of relationships may be seen as pro-activity rather than intentionality – firms do not necessarily know where a relationship is going but they seize the opportunity and build on it rather than setting out to create it. One of the changes noted over the timescale of the research was that while most of the strategies were seen as intentional, these were increasingly done in the context of relationships.

5.5.2 Contribution to the New Zealand wine industry

Whilst many studies have been made of the New Zealand wine industry (Barker 2001; Batt 2000; Lewis 2001; Mabbett 1998; Marshall 1992; McGregor 2001; Moran 2001) and some have looked at relationships within the industry (Beverland and Baker 1999; Beverland and Lindgreen 2001:, Lindgreen 2001) none has taken the approach of combining strategic management and business networks theory in a study of the industry. This study has contributed to understanding the strategic complexity of an industry in early maturity, which has gone through the informal network information sharing stage and early internationalisation and is now becoming a more sophisticated player on global markets, with more competitive pressure at home and overseas. A strategic management focus on a developing agri-business is also a useful contribution in verifying the application of strategic management techniques to a historically land-based industry. Indeed the study has shown that, whilst crop-growing is an essential stage in the industry activities flow, players in the industry must master the rules of the game in many other sectors, notably the newer ones of brand building and managing FMCG relationships. There may also be a contribution to understanding the applicability of manufacturing models of increasingly modular production to agri-business systems. The New Zealand wine industry is seen as dynamic and highly successful in world wine markets and this study contributes to understanding the structure of interactions and strategies within such achievements.

5.5.3 Contribution to method

The methodology used in this study involved qualitative data collection using interview methods. The method itself is not radical but few studies are informed by in-depth data from key informants across entire strata of a national industry. The data presentation matrices were developed for this study, are somewhat unique and their application could be replicated in other industries or contexts. The study contributes an original in-depth study of an industry using diverse data displays and a rich set of analytical tools and frameworks to present the data and its analysis in a concise but in-depth manner. The two stages of data collection provided a view of the dynamics of the industry and the change between the two stages of data collection. The method was informed quite specifically by the structuring around Bhaskar's domains (1978), the empirical domain was explored in two stages of data collection, giving a rich picture of the case firms' networks and relationships as reported by the interviewees within the industry context. The actual domain involved the interpretation of the data by the researcher in which the ways in which the firms used their relationships and why and how they fitted into strategy were analysed. A part of the third domain, the real domain has been glimpsed in this research, with a theorised explanation for the strategies and networks of relationships based on the case firms' approaches to relationships in their strategy formation and realisation processes. This approach again was novel and could be built upon in future studies.

5.6 Implications and further research

Wider implications of the research and opportunities for further research are identified in the areas of method, theory development and industry studies.

5.6.1 Method

The qualitative methodology adopted in this study built on existing knowledge and understanding and extended this is a new and original way. The two-stage method of data collection enabled theory-building through an exploratory stage followed by a confirmatory stage. Further research could be carried out using the combination of methods used in this study. Data collection and analysis have been combined in a number of useful ways. Two stages of data collection enabled the research and the interviewee to get to know each other a little and thus put the interviewee at her/his ease. It enabled some engagement in the topic and in practice allows longitudinal data to emerge. It also demonstrated long-term interest on the part of the researcher to those industry players who give so generously of their time rather than the research appearing to be expedient and academic convenient. Some of the approaches to data analysis and presentation could be replicated in other studies. The data were collected during two periods: 1996-97 and 2000, thus there is a lag between the two 'snapshots' of data and their reporting. Whilst the research could be seen as two unconnected data points, the gap was used purposefully. It allowed a view of the dynamics of the companies' approaches and their relationships to emerge, and positions the data to enable further follow-up work to track the industry dynamics in the future.

5.6.2 Theory development

The next major step in researching these issues would be to take the models 5.3 and 5.4 of strategy and relationship interaction and validate them in a large-scale study across other industries. This could be done through replication studies (see below) and through cross-sectional studies. The factors within the models have been identified and clarified by an in-depth two stage case study method in the present study and hypotheses could now be developed to test the theory using a large scale survey method. Identifying or introducing other variables into the model would help to further develop theory. In particular, cultural variables within organisations and cross-cultural variables in international business would further extend theoretical understanding of the model presented in this study. The matrix at 5.4 could be used to develop testable propositions within a future study, especially to clarify the intentionality-emergence continuum in strategy.

5.6.3 Industry studies

The procedures set out in Chapters 3 and 4 could be used to replicate this study in other industry or geographical contexts. The categories for further wine industry studies could be selected on country size (eg another very small one such as Luxembourg) or industry size (eg North American wine regions such as Oregon). Country size would cover geographical location and the proximity of players and industry size comparisons could be used to clarify the importance of the scale of production and the span of managerial control in the strategy and relationships. On the age of the industry, further studies would enable replication and comparisons between New World and Old World wine producers thus identifying factors which might be attributable to the stage of industry development. The New Zealand wine industry is a new, young one approaching maturity and we can track the development of the modern industry within the lifetime of many current industry players. Comparisons with the industry development and lifecycle factors in other New World industries such as Chile or Argentina would yield a number of insights in this area.

An area for further study within the wine industry would be to collect data on the drivers of wine industry relationships from the other party in each dyad. Thus data would be collected from such parties as the grape growers who supply the wine companies, officials in the industry body, distributor s, agents, retailers, on-premise buyers and other end users. This would give an even fuller picture of the nature of relationships within the industry and could also be used to test hypotheses emerging from the model's application at the level of the whole industry rather than just the wine companies.

Another area for research would be to take one specific aspect of the industry and research that in more depth. Of particular interest are the actors within the industry: it would be a useful to research the mobility of people within the New Zealand and global industry, specifically focussing on their social networks, to identify how the industry has built up its knowledge base, how it is likely to develop in the future and to add to understanding about the interaction between individual, firm and industry knowledge development (Lindsay 2002). There are research possibilities in studies of other industries. Of particular interest is whether the findings here are particularly relevant to land-based industries. It would be useful to replicate and then test the findings matrix in manufacturing and service environments. This would fit with the development of a lifecycle understanding within the RBV and the DVC. When and how to compete as firm develops and industry develops. Strategies and relationship with them change as the industry faces new entrants, different foci for cooperation, modular involvement in value systems. The development of the industry away from a farming, land-based industry to one producing branded products and issues of maturity, size and ownership issues within the industry meant that there was less co-operation, more competition, perhaps less cluster/collective learning, more individual.

5.6.4 Implications for managers

As was indicated in Chapter 1, managers need to be aware of how and why they take certain strategic decisions. Not all managers have the benefit of an MBA or other strategy oriented studies. In the New Zealand context where small firms (of less than 10 employees) make up a large percentage of all firms there is a need for multi-skilled managers. Whilst this research did not aim to develop any normative conclusions, indeed one of the motivators behind the research was the similarity of performance and yet diversity of strategic approaches which were identified among wine industry players. There is no suggestion of sub optimal performance or of any causal relationship between use of particular relationships and performance. It is simply useful for managers to understand their relationships and how they use them at any stage of the value chain and how they might balance their portfolio of network relationships (Möller and Svahn, 2003) especially as between strong and weak ones.
For the industry, the possible strategic development of the New Zealand wine industry towards what has been referred to a system of 'modular production', a new organisational form which is neither network nor hierarchy but a tight coupling along the value chain based on specific skills outsourced (but controlled) by a lead firm, (Langlois, 2002; Sturgeon, 2002) has serious implications for the knowledge base and strategic capabilities of that industry (Langlois 2002; Sturgeon 2002). This notion echoes the concerns of Möller et al, who identify the importance of being able to manage strategic nets, seeing this as a 'set of dynamic capabilities' [Moller, 2002 #478]. This will be a key management concern for large and growing hub firms in the industry, both New Zealand based and offshore.

One of the outcomes of network research is to assist managers to understand what kinds of relationship they are in (Ford, Gadde et al. 2003; Möller and Svahn 2003). One of the critical future themes for managers in this wine industry emerging from this research will be the balance in approaches to relationships between: strong and weak ties or couplings (Danneels 2003; Granovetter 1985), the risks of over- or under-socialised (Uzzi 1997), and the liabilities of over- or under-connectedness (Powell, Koput et al. 1999). While structural holes are negative for innovation (Ahuja 2000) how can one firm or manager cover them all, especially if traditional close co-operation in changing in the industry, and weaker ties may be needed for creating value (Johnson and Selnes 2004), though again this risks the traditional social cohesion of the wine industry.

5.6.5 Implications for policy and practice

As was mentioned in Chapter 1, there have been a number of policy (government) level initiatives around the world which have aimed to stimulate co-operation for business, industry and economic development. These have been done through funding for network and cluster formation in the areas of local economic development, research and development, specific industry growth or general export stimulation. The present research has clarified how and why firms use and may use their networks and relationships. There is an opportunity now to go back to (especially New Zealand practice) and compare the theorised and identified benefits of stimulated cooperation with the results from naturally occurring ones explored here. There is no assumption of causality or necessary preconditions. Whilst the present research proffers chains of evidence from the empirical data and theorises about explanations, it makes no assertions about universal or generalisable causality among variables. The theoretical approach and research design do claim, however, the ability to be replicated in other industry network contexts.

5.7 Overall Conclusions

These cases show that neither the intentional viewpoint, in which firms proactively manage their networks, nor the path dependent view, in which factors outside the firm carry it along, gives a full or accurate explanation of network or relationship use in strategy. Whilst Hite and Hesterly (2001) argue that what is needed is a combination of perspectives, which they posit in a stages or lifecycle approach, this study has shown that it is more about dominant relationship or strategy style: more about how firms see inputs, processes and outcomes, whether in an economically rational or social way or in combination. What comes out of the cases above is that the use of networks and relationships can be consciously managed or allowed to emerge, for quite similar outcomes but from very different relationship perspectives.

Identifying how firms select and place value on their network strategies adds to understanding of the role and usefulness of relationship strategies in general, and contributes to understanding the organisational variables which have an influence on these key decision-making processes. The analysis of business organisations must take into account both the economic and social processes and outcomes involved in relationships and networks. Firms may make rational choices but these are framed and somewhat constrained within the industry (network) context. Relationships and networks may emerge and develop over time (the IMP approach) or they can be intentional and planned (the strategic management approach). The role or function of the network relationship, in terms of processes or outcomes, will have an important bearing on how the relationship is valued and how it may change over time.

It has been acknowledged by the University of Auckland Wine Industry Research Institute (WIRI) and New Zealand Trade and Enterprise (Lewis and Prince 2004) that as a result of its growth and development, there is now a much greater range of interests and diversity within the New Zealand wine industry. This study has shown some of the strategic characteristics of that diversity among a group of similar sized wine companies. As WIRI has pointed out, all of these wine companies face the opportunities and risks of global and domestic markets, especially in channel and brand management, building on growth and innovation and product and market research and development (2004). Whilst it is clear from this research that the role of relationships and connections with others in the strategies of the wine companies will be central to this future development, the nature of the use of such relationships will no doubt develop still further.

Appendices

Appendix 3.1: An overview of the New Zealand Wine Industry

Previous business research on the New Zealand and other wine industries is described, highlighting research issues within the industry and providing detailed background of the industry used in the present research.

1. An overview of wine industry research

Two streams of business research have used wineries as vehicles. One considers theory development and refinement using industry-based studies and the other concentrates on industry analysis. Theory-based studies have covered: agency theory and constitutional ordering and how collective action emerges (Araujo and Brito 1997); the nature and extent of 'entrepreneurial networks' and the use of competitor networks (Brown and Butler 1995); population density/failure rate and the importance of niches for survival (Delacroix, Swaminathan et al. 1989); organisational characteristics and environmental change (Delacroix and Swaminathan 1991); differentiation and failure rates (Swaminathan and Delacroix 1991); tourism (Dodd 1995); industry cognition (Phillips 1994:385); co-operative formation (Skinner 1994) and quality (Benjamin 1999).

Country-based industry studies have included: Australia (Batt and Wilson 2000; Marsh and Shaw 1999) Portugal (Araujo and Brito 1997; Lages 1999); the USA (Brown and Butler 1995); the California wine industry (Delacroix, Swaminathan et al. 1989); (Phillips 1994, p385); Swaminathan and Delacroix 1991); the Texas industry (Dodd 1995); the Cypriot wine industry (Skinner 1994); New Zealand (Beverland and Lindgreen 2001; Mabbett 1998; Wilson and Benson-Rea 2001). Other academic studies have focussed on: export marketing (Marshall 1992); the geography of the industry (Moran 1958; Workman 1994); technical developments (Tait 2001); historical and political studies (Cooper 1977; Mabbett 1998).

2. The Global Wine Industry

The global wine industry is made up of two geographical located sets of players: the 'Old World' producers, comprising the traditional wine production and consumption areas of Europe, and the 'New World', of the Southern Hemisphere and the USA. A recent report on key trends for the global wine industry (Rabobank 1999) highlighted the following areas:

1. Changing patterns of and increased production;
2. Shifting patterns of demand;
3. Increasing retail power;
4. Increasing competition between countries;
5. Increasing importance of branding;

6. Changes to wine industry structures.

These are each discussed briefly and related to the strategic issues facing the New Zealand wine industry (Benson-Rea, Brodie et al. 2003).

2.1 Wine Production

Globally, wine production exhibited a slight fall during the 1990s, though production in the New World increased over that period (Parminter 2002). At the same time world trade in wine increased by 5 per cent per year in terms of volume, with NWWP's share growing by 500 per cent (to 16 per cent by value) (Anderson 2001). Anderson (2001) indicates growth in global premium wine production (40 per cent of the total) of over 38 per cent from 1999-2005. This includes Australian production doubling, that in the US growing by just over 50 per cent but Europe's only growing by one-fifth. New Zealand's production area[16] of 13,200 hectares in 2002 has grown by around 1,000 hectares over the last five years and is expected to increase to 18.000 ha in 2006 (Parminter 2002), thus increasing our wine production in the longer term. A major issue for New Zealand producers will be the associated growth of processing facilities and marketing and promotional efforts which will be required. The quantity of New Zealand wine for export is forecast to grow by 160 per cent over the period 2002-2006 (Parminter 2002), as domestic consumption is kept steady (ibid).

2.2 Shifting Demand

The New Zealand Ministry of Agriculture and Forestry has referred to, "profound changes in work wine markets" and attributes this primarily to changes in consumer tastes (Parminter 2002). Demand has also been falling during the 1990s (Parminter 2002), especially in traditional wine consuming countries. This may be explained by health concerns and increased competition from other beverages, both alcoholic (ready mixed drinks for example) and non-alcoholic (see www.justdrinks.com). There may be a consumption/production gap of as much as 15-20 per cent (Parminter 2002; Pretorius 2002). However, demand in non-traditional wine drinking regions has been growing, and the requirement there has been for NWWP products, rather than Old World. This is ascribed to the search for new products on the part of consumers and the high quality of single varietal wines (especially New Zealand Sauvignon Blanc) and brings New Zealand wines the highest average price in the UK market (Rabobank 1999). As a highly priced discretionary item, New Zealand wine exports are dependent on consumer preferences and economic growth. Should the growth in world premium wine output overtake the growth in demand (from income and population growth)

[16] Area in vines (Anderson, 2001).

New Zealand could see a decrease of up to 13 per cent in the real price of its premium wine (Wittwer 2001). Recent New Zealand wine market research stressed the similarity in attitudes toward wine among domestic New Zealand consumers and international visitors to New Zealand (Advanced Business Research 1999), arguing that wine drinkers were exhibiting similar characteristics and attitudes around the world and thus replicating findings in studies done in the US and Australia.

2.3 Increasing Retail Power

The importance of supermarkets in wine retailing has been growing in Europe, North America and Australia (Advanced Business Research 1999; Rabobank 1999) as has the impact of their lower margins (15-25 per cent) (Wittwer 2001). In the UK, New Zealand's most important market, 60 per cent of wine sales are through 'grocers' (supermarkets). 94 per cent of those sales are below the critical price point of £5.00. The average selling price for New Zealand wines in that market is above that amount, at £5.14 (Mikic 1998). The focus for UK supermarkets is thus on the higher volume end of the market. Whilst New Zealand wines are highly regarded and can attract higher margins for the quality and differentiation, and indeed the higher cost structures of the industry here requires higher prices, the pressures to reduce margins to achieve consumer awareness is a difficult balance (PriceWaterhouseCoopers 2000). New Zealand's high cost structures are in part attributable to:

- Lack of scale economies (for volume production options);
- Climatic conditions – the cooler climate in the Lower South Island prevents ability to ripen as much fruit as in the North;
- The higher cost of equipment here (relates to distance and lack of scale);
- The cost of land (Barwell 1990).

These cost structures are unlikely to change significantly. Eddy (2001)estimates that 40 to 45 per cent of total production costs are accounted for by grapes, followed by the cost of barrels, then cellar processes and bottles. Whilst grape prices are forecast to increase in 2003 due to bad weather, they are expected to fall in the medium terms as more plantings come into production and export prices go down (Parminter 2002). In the longer term, however, production per hectare is expected to decrease because of increased plantings in lower producing areas (for example the Lower South Island) and a focus on quality rather than quantity in production.

2.4 Increasing Competition Between Countries

As international trade in wine has increased and, through WTO Rounds and such agreements as TRIPs (Trade-Related Intellectual Property), trade has been liberalised, new barriers have arisen as competition has increased from new entrants. The Old World European producers have attempted to protect both their own market (through such means as tough new legislation on geographical indications and production standards as well as subsidies to wine producers) and their export markets (for example, the EU's attempt in 2001 to introduce the distinction between "industrial wine" (New World) and "agricultural wine" (Old World) introduced (Anderson 2001)). New entrants over the last 15 years have included: Argentina, Australia, Chile, New Zealand, South Africa and the US. New consuming countries have included: the Netherlands, Scandinavia, Japan, and the UK, with new emerging consumers in China, and of course Australia and New Zealand.

2.5 The Importance Of Creating Brand Value

Marketing is now the force driving wine production of any significant scale, overcoming the production led approach which has characterised the wine industry in the past (Eddy 2001). Eddy argues that marketing and financial objectives should come first for wineries, assess the resources available to them and only, "then talk about wine making" (2001:68). Brand rationalisation is becoming a key issue, especially for white wines, and principally Chardonnay as global production faces oversupply (PriceWaterhouseCoopers 2000). Producers have used generic branding based on location (Anderson 2001), as well as individual marketing. As mentioned, the New Zealand industry has a higher cost base relative to its competitors: meaning it requires ultra/super[17] premium positioning for a return on investors' funds, limiting the industry's capacity to reach new consumers in different segments should they wish to do so. Price Waterhouse Coopers estimate that New Zealand wines could only be purchased by 5-10 per cent of consumers in most of our international markets (PriceWaterhouseCoopers 2000:31). The alternative is to produce 'to a price' for supermarkets, which could damage the focused differentiation strategy pursued by much of the New Zealand industry. Furthermore, the volume strategy (selling at below £5 per bottle in the UK market) is only viable for the largest 3-4 New Zealand wine companies and those associated with large international distributors.

2.6 Changes To Wine Industry Structures

These may be analysed at the level of governance (regional and international) or in terms of firm and industry level. At the global level, the industry body is the *Office International de la Vigne* et *du Vin* (OIV). This tends to be dominated by the 'Old World' producers and has its headquarters in France. The 'New World' producers have formed a grouping called the New

[17] The six levels of wine positioning may be labelled: Icon, Ultra Premium, Super Premium, Premium, Commercial and Commodity.

World Wine Producers' Forum[18] (NWWP) which promotes the international trade and market access of its members. In New Zealand, the industry body formed in 1975 to self-regulate, promote and represent the interests of wine companies, the New Zealand Wine Institute, merged in 2002 with the body representing grape growers, the Grape Growers Council, to form Winegrowers of New Zealand, thus institutionalising the close co-operative relationship and common membership which has developed over the last 15 years of the industry.

At the firm level in many regions there is a clear distinction between very small, 'boutique' producers, co-operative groups of smaller producers, and global level drinks companies. The key trends among smaller players are concentration or amalgamation, either horizontal of vertical, personality- or location-based branding, lifestyle values, and a focus on quality. Trends among drinks conglomerates include global presence and scale, and portfolio approaches to location and products through alliances or horizontal mergers and acquisitions[19]. We are seeing the emergence of very large scale wine corporations, particularly in Australia (which include New Zealand subsidiaries) and the US, which resemble transnational organisations in that they are associated with ownership driven strengthening of the vertical integration and distribution, with multiple site production.

3. The New Zealand Wine Industry

Table 1 gives some key indicators of the New Zealand wine industry. From it can be seen the strong growth the industry has shown over the ten year period from 1990-2000 in all areas, except average yield – which is an indicator of quality whereby quantity is sacrificed for a lower yield of higher quality grapes.

Table 1: Key Indicators Of The New Zealand Wine Industry

Indicator	1990	2000	% change
Number of wineries	131	358	173 ↑
Total vine area (hectares)	5800	12194	110 ↑
Producing area (hectares)	4880	9752	100 ↑
Average yield (tonnes per hectare)	14.4	8.9	62 ↓
Wine production (million litres)	54.4	60.1	10 ↑
Wine exports (million litres)	4.0	19.2	380 ↑
Wine exports ($million)	18.4	168.6	816 ↑
Domestic sales of NZ wine (million litres)	39.2	40	2 ↑

[18] The New World share of global wine exports (excluding intra-EU) is 29% compared with the EU's 55% (Anderson 2001).

[19] However, Anderson (2001) cites a study by SBC Warburg which claims that the global wine industry is the least concentrated. In 1999 the world market share for the top four firms in wine was 7%, as against 20% for beer, 44% for spirits and 78% for soft drinks.

Imported wine (million litres)	4.5	28.6	535 ↑
Imported wine ($million)	27.8	127.3	358 ↑

Sources: (Bank of New Zealand 2001; Ministry of Agriculture and Forestry 2000)

4. Export sales

The first export sales of any modern significance were in 1963. The value of exports was $41,000 in 1970, and exceeded $2 million by 1984, with the UK becoming our top export market in 1886. By 1991 total exports had reached $25 million. The total value of New Zealand wine exports in 2001 was $198,104,575. As table 3.8 shows, this is projected by the industry to grow to $736,221,135 by 2006 (Bank of New Zealand 2001:45). With the exception of one or two difficult years in terms of vintages, exports have typically shown year on year growth of 30% (1991-92), 39% (1992-93) 41% in 1995-96, and 30% in 1998-99 (Winegrowers of New Zealand 2002).

Table 2: New Zealand's Top 5 Export Markets

	2001 actual by value*	2006 projected by value	2006 projected by volume
1	UK	US	UK
2	US	UK	US
3	Australia	Australia	Australia
4	Canada	Japan	Japan
5	Other Europe	Canada	Canada

Source: Wine Institute Projection Survey 2001, cited in (Bank of New Zealand 2001:45-46)

Whilst the UK is projected to remain New Zealand's top export market for wine in terms of volume (from 9.9 million litres in 2001 to 21 million in 2006), the US will overtake it in terms of value (UK $92 m in 2001 to $230 m in 2006; US 40 m in 2001 to $241 m in 2006) (Bank of New Zealand 2001). These may represent currency changes but are more likely to be based on the profile of exports to those market, with more middle range wines going to UK supermarkets and more top range wines going to the US specialist and on premise markets.

The New Zealand wine industry is very small and geographically proximate, involving some 30 players of significant size, within a country with a population of only 3.5million. In addition to sharing geo-spatial features, with respect to industry governance, all grape growers and wine producers are legally obliged to belong to a single industry body, the New Zealand Winegrowers[20], and the Institute has led planning and development of the industry (Wine

[20] Until 2002 this body was known as the New Zealand Wine Institute. It changed its name upon merger with the New Zealand Grape Growers Council.

Institute of New Zealand 1979; Wine Institute of New Zealand 1993) Thus the industry boundaries and players are clearly delineated and actors are well known to each other. In such a small and seemingly homogeneous context strong norms and rules seem to have emerged within the industry which can be identified and grouped. Simultaneously, however, the present study indicates a plurality of views of industry strategy based on the integration of two sets of norms: one rural/farming-based (Moran 1993) and one encompassing those of the fast moving consumer goods (FMCG), agribusiness and hospitality sectors (Rabobank 1999). In examining the processes of strategy and relationship evaluation within the industry a distinct sociological rather than business/economic focus emerges. Thus the context of this study, the New Zealand wine industry, is an industry group which exhibits complex linkages of many different kinds.

The New Zealand wine industry[21] is a relatively 'new' one, having grown rapidly, both domestically and in terms of export sales, from the 1980s onwards, although vines have been in production here since the advent of European settlers in the mid 1840s (see Benson-Rea, 1996; Lewis, 2001; Mabbett, 1998). Indeed the then French vice-consul in New Zealand was so impressed by their quality that he took wines from the 1855-1888 vintages back to Paris (Mabbett, 1998). Offering perhaps the first historiographic account of the development of the New Zealand industry, Mabbett (1998) traces the progression of a new world, though not young, wine industry. He usefully characterises the industry as one involving both 'a processed agricultural commodity' and a 'cultural icon' and which exhibits features of both industrial and agricultural production. The development of the industry is now briefly reviewed.

5. The Development Of The New Zealand Wine Industry[22]

5.1 The Nineteenth Century

In 1819 Samuel Marsden planted 100 grape vines of different varieties from New South Wales in Australia at Kerikeri in the Bay of Islands, and at Waimate, which were noted by Charles Darwin in his *Beagle* voyage. In 1833 James Busby planted vines from French and Spanish vines in the Bay of Islands (and in the Hunter River region in NSW), producing his first wine - the first known to have been produced in New Zealand - in 1840, some of which he even sold to the military. In 1865 the Marist religious order planted vines in the Hokianga, at Wanganui and in Gisborne, finally settling in Hawkes Bay. The Mission vineyard at Taradale remains under Marist management today. In 1866 Joseph Soler, a Spaniard, planted

[21] There are a number of excellent works on the fine products of this industry, see especially Keith Stewart and Michael Cooper, plus website: http://www.nzwine.com.
[22] This section draws heavily on Bryce Rankine (1995) "Making Good Wine".

grapes in Wanganui, the wine from which received awards in Australia and London. His nephew, Joseph Vidal established what was then the largest vineyard in Hawkes Bay, which is now part of Villa Maria. In 1885 *phylloxera*[23] struck and was widespread round Auckland by the 1890s. In 1894, the newly formed New Zealand Department of Agriculture (1892) appointed Romeo Bragato, an Italian viticulturist from Victoria, to advise on New Zealand's potential for wine production and on how to combat *phylloxera*. He became New Zealand's first government viticulturist in 1901 and was the founding head of the Te Kauwhata viticultural research station (Rankine 1995).

5.2 The Twentieth Century

Many New Zealand wine companies date back to the early part of the twentieth century, for examples: Corban 1902, 1905 Vidal, Lincoln 1937, Montana, begun by the Yukich family in 1944, and Delegats in 1947 (Scott 1964). Corbans established a vineyard in Henderson in 1902, but 1909-circa 1923 saw prohibition in New Zealand and the First World War. The Second World War saw an expansion of wine production in New Zealand due to increased demand and increased duties on imports. The period 1956-8 saw another period of growth due to government policies, leading to 1970 onwards which saw a boom in vine planting (also occurring world-wide) due to liberalisation of domestic wine sales, tariff protection and increased demand for table wine – rather than the traditional 'fortified wine' which had been produced hitherto. The 1970s saw new areas such as Gisborne added to Hawkes Bay and Henderson, followed by further expansion to Marlborough and Canterbury. 1975 saw the formation of the Wine Institute of New Zealand shortly followed by the New Zealand Grape Growers Council. In 1983 there was increased taxation on wine and another *phylloxera* threat which, together with the fear of a surplus of grapes, prompted the government to introduce the 1986 Vine Extraction Scheme, which reduced the total national vineyard by 25 per cent. The industry took off again in 1989, the beginning of the current era, with new planting in new areas, such as Wairarapa, Otago, Nelson and Waiheke Island (Rankine 1995). Some key New Zealand winemaking and wine trade developments are set out later in the Appendices.

One of the explanations given for the success of the New Zealand wine industry over recent years relates to the pre-existence of the factor conditions required. There are a number of parallels top be drawn with the emergence of the modern Californian industry, namely:

- Historical background;
- Supporting industries – suppliers of grape stock, irrigation, harvesting equipment, barrels, labels specialised PR and advertising companies, wine publications for consumers and trade;

[23] An aphid-like insect which attacks vine roots and for which there is still no known prevention or cure (except through grafting vines onto resistant American rootstock) though the New Zealand industry has recently pioneered an approach which introduces another insect which attacks the *phylloxera* bug.

- Institutions – UC Davis, Wine institute, special committee of state senate and assembly;
- Weaker linkages to other clusters such as agriculture, food, restaurants, tourism (Porter 1998).

Porter (1998) argues that, with its emphasis on productivity, innovation and new business formation, specialised information develops in a cluster – plus personal and community ties build trust and assist information flows, making information more transferable.

Much of the New Zealand economy, including the wine industry, has internationalised rapidly since the 1980s from a small domestic base. Mikic (1998) argues that the success of the New Zealand wine industry has been based on trade liberalisation, whereby the industry moved from producing cheap low quality wines to quality production, and from import substitution to export orientation. This transformation was in response to the availability of imported wines, arising from the tariffication of a complex wine import system, and the phasing out of tariff quotas and their replacement with *ad valorem* duties (5 per cent in 2000), and to the Grapevine Extraction Scheme of 1986, which encouraged the planting of higher quality vines (principally reducing Muller Thurgau and increasing Chardonnay and Sauvignon Blanc plantings) (Mikic, 1998). Appendix 3.y gives an overview of regulatory changes in New Zealand.

The New Zealand business context is rather unique: exhibiting strong social bonds among actors- it has a small, close but also highly independent business culture. It is highly internationalised but retains features of newness and post-colonial business and societal structures. Within the wine industry, entrepreneurial, lifestyle and corporate players have joined a traditional core of family based firms (primarily Croatian but also French, Spanish and German (Lewis 2001)). The industry continues to experience rapid and strong international growth which brings new relationships to the mix in terms of ownership and corporate governance. A table at the end of this appendix shows some examples of the international corporate connections of the New Zealand industry.

The New Zealand industry resembles other wine regions in terms of structure and organisation in:

- The split between rurally based grape growing and more urbanised production, marketing and promotion (Araujo and Brito 1997)[24];
- The high rate of new entrants (Brown and Butler 1995)
- The segmentation of wineries into size and output-based categories (Swaminathan 1995).

However, Lindgreen expresses the practical question of strategy about the New Zealand industry. Thus:

> there is still a need to understand more about how wineries practically manage being embedded in multiple relationships and networks...(Advanced Business Research) how do wineries compete and co-operate within relationships and networks? (Lindgreen 2001:13).

[24] The distinction between what Mabbett (1998) describes (after Williams, 1973) as "the country and the city".

The present research seeks to add understanding to both the theoretical and practical underpinnings of this statement. The business linkages of the firm and the importance of the firm's relationships with others is increasingly being seen as an important alternative view of the firm, particularly in juxtaposition with the transaction-based view of the firm. Further, governments, including the New Zealand Government, have allocated large sums in order to stimulate "networks" of smaller firms which can achieve economies of scale and scope within cooperative relationships with, among others, firms which they would see as competitors. Much research is still to be done as to the nature of the naturally occurring phenomena as well as the externally stimulated or induced cooperative strategies.

In concluding this overview of the industry, it is instructive to go back to perhaps one of the cradles of the wine industry, the Burgundy region of France. Writing in 1962, Grivot identified some key themes which have relevance to the New Zealand industry of today:

- Distribution chain power;
- The need for common action;
- The interplay between price, quality and market perceptions/demand (and who controls that);
- The interplay between vertical integration and specialisation.

A particularly telling phrase was:

> "Cela suppose évidemment le sacrifice sur quelques points du redoutable individualisme bourguignon à un intérêt général évident. Il est d'ailleurs clair que la réduction du nombre de maisons facilitera une telle discipline tout en permettant à chaque maison de mieux affirmer sa personnalité" (Grivot 1962 : 221). (A collective approach to restructuring will entail sacrificing individualism, although each winery will be better able to express its own personality)[25]

There could be concern in New Zealand about the sheer growth in producer numbers and the eventual 'shakedown' that will be needed. There are practical explanations for this but the French parallel with New Zealand in terms of the industry lifecycle phase is interesting. Although we do not have the centuries of tradition, the 'luxury' quality or the same production/distribution patterns, the concept of similar industry lifecycle phases in other wine industries is an interesting one. Organic growth based on capital investment in the industry is of a long term nature. It can take anywhere between 5-10 years before any real returns can be expected: "Generally...growth for a wine company simply means a bigger drain on capital" (De Boni 2001). Increasingly, however, rather than capital growth based on land, wine companies are increasingly leveraging smaller vineyard resources, through share floatations and an emphasis on growth in export markets, which relies on filling export orders (ibid). Some recent New Zealand examples include Waipara Hills, Lintz Estate, Oyster Bay and Terra Vitae (ibid).

[25] Translated for this study.

6. Academic studies of the New Zealand wine industry

A number of studies have focussed on various aspects of the New Zealand wine industry which are relevant to the present study which are now reviewed. In a co-authored paper, Moran, Lewis and Barker give an overview of what they entitle the New Zealand Wine Filière Project (Lewis 2001). The *filière* refers to the industry's commodity chain and the linkages along it, which is analogous to the concept of the value chain (Porter 1980). Barker gives an interesting historical and institutional analysis of the regulation of the industry worldwide and the relationship between the old and new world producers (Barker 2001). Moran gives an analysis of the industry's learning and knowledge sharing, using the spread and adoption of particular vine clones as an indicator. McGregor highlights the development of local legislation and how firms had used this to develop their positions in the industry (especially Yukich, the founder of Montana) (McGregor 2001). Other academic studies have focussed on: export marketing (Marshall 1992); geography of the industry (Moran 1958; Workman 1994); technical developments (Tait 2001); historical and political studies (Cooper 1977; Mabbett 1998), networks and relationships (Beverland and Lindgreen 2001; Mabbett 1998; Wilson and Benson-Rea 2001).

7. The Agricultural Context

Whilst agriculture or land-based industries may be viewed as similar to or parallel with other forms of business, Mabbett (1998) raises the question as to whether we can make the same assumptions about agricultural production as we do about industrial production. Contract farming, for example, substitutes uniquely for open market exchange and there are many forms of contracts. Contract farmers, he argues, may be merely hired labourers, self-employed workers or part of a symbiotic business relationship along an integrated value chain. Glover and Kusterer (1990) give an analysis of the variety of relationships faced by small farmers, and define agribusiness as:

> "Activities of a private firm, alone or in joint ventures with public agencies, in the production, processing or marketing of agricultural or agriculture-related goods and services". (Glover and Kusterer 1990:1)

Clearly, the grape growing industry in New Zealand is not associated with public agencies, but this wide definition may be applicable to part of the wine industry's value chain and this analysis of relationships which have a generalisable set of characteristics may be useful. In particular, they consider 3 factors related to contract farming:

- Advantages to both firm and growers in managing risk and uncertainty: price, quantity and quality pre-set, assured market and volume, close interdependence;
- Operation of contracts often includes introduction of new crops and techniques with wide social impact on labour, households and rural communities;
- Very strong coalitions of interests can lead to conflicts of interest, exploitation and bargaining and the dynamics of these change over time. (Glover and Kusterer 1990:2).

In their analysis Glover and Kusterer (1990) set two conditions to their definition of contract farming: (1) firm and supplier are known to each other and (2) firm behaviour has some influence over the contractor's farming practices. Tightening their definition they argue that contract farming arrangements can potentially include: forward contracts where only price and quantity are set; contracts in which price is fixed at planting and the buying company supervises growing; contracts where buying company provides some or all inputs (so-called high intensity contracts). However, they exclude arrangements in which: contracts are transferable; market price is charged at delivery; buyer has no control over production processes. The key issues explored by Glover and Kusterer (1990) focus on what they consider to be the typical problems of contract farming relationships:

- Financial (credit, debt. risk, income);
- Social issues, socio-economic differentiation;
- Effects of contract farming on farming and management skills and learning;
- Grower organisation;
- Change over time in the farmer-grower relationship.

Among their key conclusions are a number concerning the delicate balance of interests and power in these contract relationships. On one hand Glover and Kusterer (1990) describe, “the vulnerable position of many contract growers” (ibid:144) in which, “growers….cultivate friendly, even personalistic relations with the company” (ibid:144) but at the same time, “he [the contract grower] seeks competing contract buyers, his best defence against the possibility of exploitation” (ibid:151). On the other hand, they describe conflicting short-run interests which can mask long-run mutual interest in continued cooperation. Of particular concern to buying companies are defaulting growers (which can be offset if the company has some of its own production), and poor quality and quantity.

New Zealand wineries and growers embrace ‘corporate’ business strategy and yet, many of the interactions are farming based, based on other intervening approaches. Moran et al’s paper (1993) on “Empowering Family Farms” begins by setting out, “three sets of relationships” (Moran 1993). Interfarm relations, prior experience of interaction and social, learned behaviour. A further paper on family farms, real regulation and food regimes sheds further understanding on the processes of influence upon agro-commodity chain.

Key New Zealand Winemaking Innovations

Date	Person/Company	Product Innovation
1965	Tom McDonald	Cabernet Sauvignon
1967	Tom McDonald	Chardonnay
1967	Corbans	Pinotage
1970	Babich	Pinotage/Cabernet
1970	Nobilo	Cabernet Sauvignon, Pinotage
1974	Montana	Bernkaizler Riesling
1973-4	Montana plants first vines in Marlborough	First time climatic and soil evaluation, not family or tradition, dictated the location of a new vineyard.
1974	Montana	Cabernet Sauvignon
1976	Matawhero, Denis Irwin	Gewürztraminer, Gisborne
1980	Montana	Marlborough Sauvignon Blanc
1982	McDonald	Te Mata Cabernet Sauvignon/Merlot
1982	St Helena	Canterbury Pinot Noir
1983	Coopers Creek	First oaked or fumé Sauvignon Blanc

Source: (Rankine 1995)

Trade Policy, Regulatory Change And The New Zealand Wine Industry

Period	Wine consumption Per capita in litres (year beginning the period)	Wine production mil litres (year beginning the period)	Trade Policy and regulatory changes
1958-1964	1.74 (1960)	4 (1960)	1958 Higher taxes on beer & spirits 1960 Restaurants licensed to sell liquor 1961 Taverns licensed
1965-1969	3.08	8	1967 Restrictions on wine imports
1970-1974	4.94	19	1971 Theatres & cabarets licensed
1975-1979	7.63	24	1976 BYO restaurants licensed
1980-1984	11.9	43	1981 Import control removed 1984 Increase in sales tax on wine
1985-1989	13.1	60	1985 Grapevine extraction scheme 1986 Duties on wine imports removed
1990-1994	11.7	54.4	1990-94 Further tariff reductions 1990 Supermarkets licensed to sell wine 1992 Wineries licensed to sell wine on own premises
1995-1997	8.7	56	1995-97 Further tariff reduction 1996 Customs and Excise Act
2000		60.1	2000 5% tariff

Sources: (Mikic 1998; Workman 1994)

Illustrative Examples of international connections of New Zealand Wine Companies

Company	Country	Labels	New Zealand connection
LVMH	France	Moët & Chandon, Krug, Dom Pérignon, Veuve Cliquot, Pomméry, Green Point (Aus), Domaine Chandon (Napa and Argentina), Ch•teau d'Yquem	Cloudy Bay (majority shareholder), Negociants (via Cloudy Bay)
Lion Nathan	Australia	Banksia	Wither Hills

Southcorp	Australia	Penfolds, Lindemans, Seppelt, Coldstream Hills, Rouge Homme (Aus), James Herrick (Fra), Seven Peaks (USA)	
Constellation Brands/BRL Hardy	Australia	Nottage Hill, Hardy's Stamp, Banrock Station (Aus), D'Istinto (JV in Italy)	Nobilo (wholly owned), Selaks
Yalumba	Australia	Yalumba	Negociants (shareholder)
Pernod Ricard and	France	Jacob's Creek (Aus), Long Mountain (S Africa), Terra Andina (Chile), Alexis Lichine (Fra), Etechart (Argentina), Dragon Seal (China)	??
Allied Domecq	UK	Via Seagrams wineries in 12 countries (with Pernod Ricard) United distillers & vinters ???	Montana, Corbans
Foster’s Brewing Group	Australia	Beringer Blass Wine Estates	Matua

Sources: (Rachman 1999)

Appendix 3.2: Interview guides

Stage 1 interviews – interviewer's version

An exploration of interfirm linkages and relationships in the NZ Wine Industry

3 MAIN AREAS TO EXPLORE:

1. Firm linkages

a) Names of firms or organisation

b) Location

c) When it started - Age of connection

d) People involved - then and now - Organisational levels of connections

2. For each of the linkages

a) Motivations
    Can you say how and why you got into this?

b) Evolution/Formation
    Can you say how the relationship has evolved?

c) Position
    Can you say what roles people or firms play in the relationship?

d) Operation/interactions, benefits
    What you do for them, what they do for you?

e) Maintenance processes
    How do you communicate, keep in touch, make decisions which effect the other

f) Benefits
    What does each party get out of the linkage?

g) Evolution
    How the relationship has changed over time

h) Change
    How has the relationship changes over time?
    How you see it changing in the future?

i) Performance
    How does this linkage relates to your firm's overall performance?

3. Others who have linkages with that firm or organisation

Can you think of:

a) Others who may have direct linkages

b) Others you think may have an interest - indirect linkage

c) Any you think may be there but are unsure

d) Any idea of impact of others on your relationship?

Stage 1 interviews - interviewee version

An exploration of interfirm linkages and relationships in the NZ Wine Industry

3 MAIN AREAS TO EXPLORE:

1. Identifying the firms you have linkages with

a) Names of firms or organisations
b) Location
c) When the linkage started
d) People involved - then and now

2. Describing each of the linkages

a) How and why you got into this
b) How the relationship began
c) How the relationship has developed
d) What roles people or firms play in the relationship
e) What you do for them, what they do for you
f) How you communicate, keep in touch, make decisions which effect the other
g) How the relationship has changed over time
h) How you see it changing in the future
i) How this linkage relates to your firm's overall performance

3. Identifying others who may be involved

a) Others who may have direct linkages
b) Others you think may have an interest
c) Any you think may be there but are unsure
d) Any idea of impact of others on your relationship

Stage 2 interviews – interviewer's version

Part 1: Checking on our previous discussion

We are trying to understand how firms use their business relationships in their business strategies and how they measure outcomes.

Firstly, can I check on what you understand by the terms I have been using?

Linkages
Interactions
Relationships
Networks
Any other terms that aren't clear to you?

When we first met we discussed your main business relationships. I have drawn these out in a diagram which I have given to you.

Can we firstly look at that diagram to see what has changed since last we spoke.
Have any connections gone? Why? How did that happen?
Have any relationships changed? ? Why? How did that happen?
Are there some new linkages? ? Why? How did that happen?

Of the various relationships we have just described, can we now look at some aspects of them in more depth? We are interested in those ones you see as critical to your company's future strategy.

Part 2 Taking our discussion further

<u>How question relates to Process Model</u>

<u>Critical business relationships</u>

Which are your **most critical** business relationships? (This should narrow the number down)

R2

For each one,

Why is the relationship critical to your future strategy?

R3

What happens in this relationship?
(Get them to describe how they see the interaction)

R1, R2

How did it begin?
(Content, initiators, expectations, motivations for each one)

ID 1, 2, 3; R1; R2

Who are your contacts there?
(Names important for building data on who is involved in wider network)

ID 1; R1; R2

How do you decide whether it is important?
(At the personal, company or industry level)

ID; R; ED

<u>Performance</u>

How well does the relationship work? (Get them to think about how they evaluate it) R2; R3
What are the benefits? What are the downsides? (Uzzi) R3
How do you measure **their** performance in this relationship?
(This relates to content, expectations, motivations and processes of both interaction and evaluation)

ID; R; ED

How do you measure **your** performance in this relationship?
(Ditto)

ID; R; ED

What would **they** say?

(Do they know? Relates to nature of interaction)

R2; R3

How are these changing?

(Dynamic views of performance and interaction itself)

R1, 2, 3; ED

Are there different ways of evaluating this relationship?

(Are they aware of options?)

ID; R; ED

General information (in your experience, in this industry)

What events or conditions lead to close business relationships? (Uzzi)

(now, in general (philosophy), in the past (retrospectively)

How do they end?

(Fade away, become less critical, diminish in importance. If indeed they do. Causes of failure useful insight into processes).

ID; R; ED

Do you attempt to achieve a specific mix of relationships? (Uzzi)

R1, R2

What prevents you from attaining that? (Uzzi)

R1, R2

How questions relate to parts of model

Q No	ID1	ID2	ID3	ALL ID	R1	R2	R3	R ALL	ED1*	ED2*	ED ALL
1		X									
2	X	X	X		X	X					
3	X				X	X					
4					X	X					
5						X	X				
6				X				X			X
7				X				X			X
8				X				X			X
9						X	X				
10					X	X	X				X
11				X				X			X
12				X				X			X
Tally	**2**	**2**	**1**	**5**	**4**	**6**	**3**	**5**	**-***	**-***	**6**

* Stage 1 data relates closely to this.

Stage 2 interviews – interviewee version

Part 1: Checking on our previous discussion

We are trying to understand how firms use their business relationships in their business strategies and how they measure outcomes.

Firstly, can I check on what you understand by the terms I have been using?

Linkages, Interactions, Relationships, Networks
Any other terms that aren't clear to you?

When we first met we discussed your main business relationships. I have drawn these out in a diagram which I have given to you.

Can we firstly look at that diagram to see what has changed since last we spoke?

- Have any connections gone? Why? How did that happen?
- Have any relationships changed? ? Why? How did that happen?
- Are there some new linkages? Why? How did that happen?

Of the various relationships we have just described, can we now look at some aspects of them in more depth? We are interested in those ones you see as critical to your company's future strategy.

Part 2: Taking our discussion further

Critical business relationships

Which are your **most critical** business relationships?

For each one:

- Why is the relationship critical to your future strategy?
- What happens in this relationship?
- How did it begin?
- Who are your contacts there?
- How do you decide whether it is important?

Performance

How well does the relationship work?

What are the benefits? What are the downsides?

How do you measure **their** performance in this relationship?

How do you measure **your** performance in this relationship?

What would **they** say?

How are these changing?

Are there different ways of evaluating this relationship?

General

What events or conditions lead to close business relationships?

How do they end?

Do you attempt to achieve a specific mix of relationships?

What prevents you from attaining that?

Appendix 3.3: Ethics documentation

Participant Information Sheet

To...

My name is Maureen Benson-Rea. I am a staff member at The University of Auckland, also enrolled for a Phd Degree in the Department of International Business. I am conducting this research for the purpose of my doctoral thesis. The research is described in the information letter I recently sent to you, together with a note of the areas I would like to explore with you (another copy of each is attached).

You are invited to participate in this research and I would greatly appreciate any assistance you can offer. If you agree to be interviewed I will ask you to fill out a consent form. All information provided in an interview will be confidential and your name or company name will not be used. Interviews will be held at a time to suit you and would take about an hour. I would prefer to audio tape the interview but this would only be done with your consent and could be turned off at any time or you could withdraw information.

Thank you very much for your time and help in making this study possible. If you have any queries or wish to know more, please telephone me at the numbers given below or write to me c/o my Supervisor.

Maureen Benson-Rea
Department of International Business
The University of Auckland
Private Bag 92019
Auckland

phone: 09 373 3599 x 7356 (office) or 09 521 0444 (home).
fax: 09 308 2324.
email: m.benson-rea@auckland.ac.nz

My Supervisor is: Prof Wayne Cartwright
Department of International Business
The University of Auckland
Private Bag 92019
Auckland. Tel 373 7599 ext 7863

contd

The Head of Department is:

Prof Nigel Haworth
Department of International Business
The University of Auckland
Private Bag 92019
Auckland. Tel 373 7599 ext 5235

For any queries regarding ethical concerns please contact:

Prof Noel Dawson
Chair, The University of Auckland Human Subjects Ethics Committee
The University of Auckland
Finance Registry
Private Bag 92019
Auckland. Tel 373 7599 ext 6204

APPROVED BY THE UNIVERSITY OF AUCKLAND HUMAN SUBJECTS ETHICS COMMITTEE on.....15May 1996.....for a period of......2.....years, Reference ...1996.../...102..

*Appendix 3.4: Examples of Nud*ist coding*

Example of coding a sheet of text

Extract from Nudist Document 2

Text units 127-135

Nudist Text unit number

And it's, it's essential, it's - it is what keeps our industry - moving forward together, it keeps us - it gives us a cohesion, and it addresses the - the issues that are - very integral to our existence, both domestically at, our local government level or international level, and it, and it encompasses every aspect of the wine industry, and - it gives us an opportunity to go somewhere, to have neutral and independent representation, and I'm, I can't imagine where the industry would be without it actually. 127

There's no other, country in the world in the modern world, that has a growing industry that does not have such an organisation, I mean it's, it's an integral part of business today. 128

And in - in - in a world stage it's important that we have a body that's informed, but - neutral, I suppose, or independent, of brand interest.

And how do you view your relationships with other wine growers in general, other wine companies? 130

Wine with - wine companies? 131

Yes 132

A, extremely good. 133

I'm constantly told, by people like the Tradenz, that there's no industry like the wine industry for cohesion and cooperation, and I think that it's probably true. 134

I think our industry is based on a peasant farming foundation, that most of the founders of the industry came from the same background, it's common knowledge that our industry is based on th, the fathers of the industry were all Dalmation, - and whilst there were other cultures Lebanese for one with the Corbans, and - not now so much but Chinese with the Chan family from - Thames, and German, Lombadies, in Hawkes Bay and you know, other cultures. 135

Used in Matrix of Stories/Narratives

Nudist coding at text unit 134:
(2) /wineries
(9) /wine institute
(10) /Other supplies
(19 2) /export/Tradenz
(T 14 1) //Text Searches/Cooperation/Cooperation
(I 1) //Index Searches/Other supplies

Stage 1 Codes

Q.S.R. NUD.IST Power version, revision 4.0.
Licensee: Auckland Business School.

PROJECT: Nudist For Real, User Maureen, 11:13 am, Mar 17, 2001.

(1)	/growers
(1 1)	/growers/contracts
(1 1 1)	/growers/contracts/binding
(1 1 2)	/growers/contracts/word
(1 2)	/growers/quality
(1 3)	/growers/philosophy
(1 4)	/growers/quantity
(1 5)	/growers/location
(1 6)	/growers/duration
(1 6 1)	/growers/duration/trust
(1 7)	/growers/commodity seller
(1 8)	/growers/handshake
(1 9)	/growers/price
(1 10)	/growers/spot market
(1 11)	/growers/size
(1 12)	/growers/under-over supply
(1 13)	/growers/relationship management
(1 14)	/growers/forward integration
(1 15)	/growers/wine from single vineyard or block
(1 16)	/growers/grapes growers council & VDG
(1 17)	/growers/Oenological terms
(1 17 1)	/growers/Oenological terms/Mueller Thurgau
(1 17 2)	/growers/Oenological terms/Oenological terms
(1 17 6)	/growers/Oenological terms/Chardonnay
(1 17 7)	/growers/Oenological terms/Sauvignon blanc
(1 17 8)	/growers/Oenological terms/pinot noir
(1 17 9)	/growers/Oenological terms/merlot
(1 17 10)	/growers/Oenological terms/varietals etc
(2)	/wineries
(3)	/distributors
(3 1)	/distributors/infrastructure
(3 2)	/distributors/trading arrangement
(3 2 1)	/distributors/trading arrangement/acceptance
(3 2 2)	/distributors/trading arrangement/long term
(3 2 3)	/distributors/trading arrangement/notice period
(3 2 4)	/distributors/trading arrangement/value
(3 2 5)	/distributors/trading arrangement/understanding
(3 2 6)	/distributors/trading arrangement/ending
(3 3)	/distributors/shareholding
(3 4)	/distributors/sales force
(3 5)	/distributors/costs
(4)	/agents
(4 1)	/agents/ability
(4 2)	/agents/infrastructure

(4 2 1)	/agents/infrastructure/agency bottling
(4 3)	/agents/place valuably
(4 4)	/agents/trading arrangement
(4 4 1)	/agents/trading arrangement/acceptance
(4 4 2)	/agents/trading arrangement/long term
(4 4 3)	/agents/trading arrangement/notice period
(4 4 4)	/agents/trading arrangement/value
(4 4 5)	/agents/trading arrangement/understanding
(4 4 6)	/agents/trading arrangement/ending
(4 5)	/agents/standing
(4 5 1)	/agents/standing/not friendship
(4 13)	/agents/relationship management
(5)	/glass
(5 1)	/glass/quality
(5 2)	/glass/price
(5 3)	/glass/contracts
(5 4)	/glass/imports
(5 13)	/glass/relationship management
(6)	/Other services
(9)	/wine institute
(9 1)	/wine institute/formation
(9 2)	/wine institute/government
(9 3)	/wine institute/intergenerational
(9 4)	/wine institute/benefits
(9 5)	/wine institute/cooperation
(9 6)	/wine institute/legislation
(9 7)	/wine institute/grape price negotiations
(9 8)	/wine institute/UK wine guild
(10)	/Other supplies
(10 1)	/Other supplies/freight companies
(10 2)	/Other supplies/other suppliers
(10 18)	/Other supplies/corks
(10 18 1)	/Other supplies/corks/quality
(10 18 2)	/Other supplies/corks/prices
(11)	/internal
(11 1)	/internal/location
(11 2)	/internal/purchase grapes
(11 3)	/internal/brand owners
(11 4)	/internal/grape growing
(11 5)	/internal/strategy
(11 6)	/internal/winemaking
(11 6 1)	/internal/winemaking/styles
(11 7)	/internal/history
(11 8)	/internal/company structure
(11 9)	/internal/oenologist
(11 10)	/internal/pricing policy
(11 11)	/internal/experimentation
(11 12)	/internal/contract winemaking
(11 13)	/internal/staff
(11 14)	/internal/family ties
(12)	/research process
(13)	/machinery

(13 1)	/machinery/technology
(14)	/industry
(14 1)	/industry/past
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(14 2)	/industry/change, future
(14 3)	/industry/personal ties
(14 4)	/industry/life commitment
(14 5)	/industry/handshake
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(14 7)	/industry/education
(14 8)	/industry/technical literature
(14 9)	/industry/west auckland winetasting group
(14 10)	/industry/knowledge sharing
(14 11)	/industry/quality
(14 12)	/industry/pooled resources
(14 13)	/industry/non-participants
(14 14)	/industry/informal
(14 15)	/industry/politics
(14 16)	/industry/firm size
(14 17)	/industry/compared with others
(14 18)	/industry/volatility
(14 19)	/industry/lead time
(14 20)	/industry/vineyard management
(14 21)	/industry/competition
(14 22)	/industry/forward integration
(14 23)	/industry/cooperation
(14 24)	/industry/hospitality
(14 25)	/industry/regions
(14 25 1)	/industry/regions/local regional council
(15)	/packaging
(15 1)	/packaging/price
(15 2)	/packaging/imports
(15 13)	/packaging/relationship management
(16)	/marketing
(16 1)	/marketing/design, labels etc
(16 2)	/marketing/promotion
(16 3)	/marketing/consumers
(16 4)	/marketing/retail
(16 5)	/marketing/Restaurants
(16 5 3)	/marketing/Restaurants/restaurants
(16 5 8)	/marketing/Restaurants/Index Search194
(16 13)	/marketing/relationship management
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(19 2)	/export/Tradenz
(19 3)	/export/international links
(20)	/new zealand market
(21)	/retail
(22)	/named people or companies
(23)	/land
(24)	/endings

(25)	/personal contact
(30)	/Measurement
(30 1)	/Measurement/success
(30 2)	/Measurement/quality
(30 4)	/Measurement/failure
(30 5)	/Measurement/contribution
(30 6)	/Measurement/rewards
(31)	/future
(D)	//Document Annotations
(F)	//Free Nodes
(T)	//Text Searches
(T 1)	//Text Searches/Social
(T 2)	//Text Searches/soc
(T 3)	//Text Searches/end
(T 4)	//Text Searches/TextSearch
(T 5)	//Text Searches/grow
(T 6)	//Text Searches/TextSearch193
(T 7)	//Text Searches/TextSearch194
(T 8)	//Text Searches/TextSearch195
(T 9)	//Text Searches/TextSearch196
(I)	//Index Searches
(I 1)	//Index Searches/Other supplies
(I 2)	//Index Searches/Growers
(I 3)	//Index Searches/Agents
(I 5)	//Index Searches/Distributors
(I 6)	//Index Searches/Wine terms
(I 7)	//Index Searches/Company
(I 8)	//Index Searches/Industry
(C)	//Node Clipboard - 'Index Search'

Stage 2 Codes

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QSR N6 Full version, revision 6.0.
Licensee: M Benson-Rea.
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PROJECT: PhDstage2, User Maureen, 1:36 pm, Mar 3, 2004.

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REPORT ON NODES FROM Tree Nodes '~/'
Depth: ALL
Restriction on coding data: NONE

(1)         /Internal drivers
(1 1)       /Internal drivers/Actor bonds ID1 (names of people)
(1 1 1)     /Internal drivers/Actor bonds ID1/Values
(1 1 2)     /Internal drivers/Actor bonds ID1/Org Purpose
(1 1 3)     /Internal drivers/Actor bonds ID1/Mission
(1 2)       /Internal drivers/Resource ties ID2
(1 2 1)     /Internal drivers/Resource ties ID2/Capabilities, competences
(1 2 2)     /Internal drivers/Resource ties ID2/Exchange
(1 3)       /Internal drivers/Activity links ID3
(1 3 1)     /Internal drivers/Activity links ID3/Knowledge and learning
(1 3 2)     /Internal drivers/Activity links ID3/Value chain position
(2)         /Relationship (names or companies mentioned)
(2 1)       /Relationship/Formation and maintenance R1
(2 1 1)     /Relationship/Formation and maintenance R1/Planned
(2 1 2)     /Relationship/Formation and maintenance R1/Emerged
(2 2)       /Relationship/Operation R2
(2 3)       /Relationship/Outcomes R3
(2 4)       /Relationship/Dynamics (how changed)
(3)         /External drivers (places mentioned)
(3 1)       /External drivers/Industry ED1
(3 2)       /External drivers/Macro-environment ED2
```

Appendix 4.1: Matrix of Stories/Narratives

Winery	*Relationship Stories*	*Explanation/Interest*
2	***Founding Families***	The industry is based on a peasant farming foundation, and was developed social overview of the industry's development. Whilst mindful of tradition and the roots of the industry, in business terms winery #2 does not 'dwell in the past', albeit that there is a certain emotional nostalgia for some of its social aspects. Winery #2has a strong view about "the older and in the traditional family brands".
	Industry co-operation	"There's no industry like the wine industry for cohesion and co-operation" but this is breaking down and it is a very different industry today. "Contracts aren't worth the paper they're written on"
	Company change	When winery #2 deals with "colleague winemakers, and proprietors, we are also talking to people with whom we have, personal ties and relationships". There is a strong dichotomy between the winery which developed from the older, traditional route, with a lifestyle and a commitment to the industry, as against other attitudes which are required 'in this world environment, when you're on the world stage'. The key decision for this winery was whether to grow and develop into the international market. The winery had gone through enormous change as a result of industry change.
3	***The 1960s Group***	An important stage in the development of the New Zealand wine industry by one of the key players. This information sharing and collective development is critical to the industry's growth and underlines the importance of informal co-operation and social groupings in industry evolution.
	Wine industry politics	Another key phase in the industry's progress and again the interviewee offers the unique insight of someone who was there. The enthusiasm and excitement are still present in the narratives.
	The hard business lesson	This recounts the experiences of someone in business when (s)he was a child which relates to over-reliance on one large customer and the need to have a portfolio of products, which winery #3 consciously does.
4	***The wine-tasting group***	Firmly in the tradition of the co-operation relationship processes of the industry and involves a key player in that process. This story is about experimentation, innovation and sharing result openly.
	The Glass Monopoly	Changing one of the more negative features of the traditional industry. It refers to the regulated economy in which the industry grew and opportunities that were pursued on an individual basis. Rule breaking new entrant.
	Adventurous packaging imports	Similar deregulation story but discussion becomes sinister: there is a risk of ostracism and of retaliation which one needs to avoid in a small market. Risk taking, entrepreneurial behaviour.

5	***Grape growers who "play fair"***	The interviewee stressed the firm's social, friendly long-term relationships with grape growers. Some didn't play fair with wineries in terms of price and delivery. The ones who did treat wineries fairly would benefit from closer relationships, would be 'looked after' and would achieve price stability.
	Informality and sociability	Both the nature of co-operation in the industry and a characteristic of the hospitality industry was its social aspects. These were strongly emphasised in the relationship with grape growers and as the relationship with distributors was becoming crucial there was a desire to bring those qualities to these relationships too.
	Non-joiners or us and them	Strong references were made to another local wine family in particular and to the ethnic and family ties of the early New Zealand wine companies. Whilst the benefits in terms of information sharing and learning may be closed to newcomers, there was reference to one or two companies who were not co-operative and allusion was made to their 'attitude' and to the fact that help and support must be reciprocated.
6	***Dark night in Gisborne***	This focuses on the changes in wine company - grower relationships and highlighted the enormous change the industry has gone through. Relations were so bad this winemaker feared for his safety.
	No more free help	A further change in the area of co-operation among the wine companies. Whereas the interviewee mentioned the names of people he would have helped in the past, he would no longer do this.
	Equal treatment	The strategy of putting in place relationship managers and of treating suppliers and buyers/distributors in the same disciplined way.
7	***Stability in relationships***	A picture emerges of a stable, rational, non-bureaucratic organisation which manages its relationships and has experienced little change or disturbance for the last 15 years. This may well be an approach necessitated by the exigencies of the stock market and public shareholders. The emphasis is on people internally and externally who fit and match the requirements.
	Choosing and Planning	Relationships do not simply happen. They are sought out and chosen to meet mutual strategic objectives. One opportunistic relationship happened to meet a strategic intent for which a search process had been underway. A large and growing company plans methodically and carefully, including the people it does business with.
	Ideology?	There is a strong undercurrent of morality in the interview: the industry is made up of individual people in firms and how the industry operates is a function of people's behaviour: there are moral commitments; the company asserts its philosophy.

8	***Chopping and Changing***	Several narratives which involve a change of policy with a change of senior personnel. Wine companies with new managing directors who chop and change policies about co-operation with other wine companies, customer companies which oscillate between centralised and decentralised purchasing and individual stores obtaining and then losing the right to make stock decision locally. Having been in the industry for some 40 years, he has seen as good deal of this. He refers to seeking relationship partners who will not chop and change.
	Poor quality new entrants	A key story involves the threat to the industry from new entrants, not because of their competitive power but from their lowers levels of quality control and the threat to the industry's reputation.
	Better People	This occurs in two areas. One is sales training that focuses on positive human interactions which staff can transfer into their personal lives. The other is that of the skills of the people within the company. Wine companies compete domestically on the skills of their people.
9	***Newco: forming a new company***	The establishment of a new distribution company in which the winery has a third share with two other companies. This has developed out of existing relationships and forms a closer relationship with a larger overseas winery.
	What to grow? - advising growers	The interviewee has risen through the New Zealand wine industry ranks and, like many of his peers, has very high level technical knowledge. This permeates his analysis of how growers and companies negotiate and decide on what grapes to grow. This contrasts sharply with the stories in this area told by others who concentrate on price negotiations.
	The state of the nation - an overview of the industry	A strategic view of the industry and where it is going internationally. Putting the size of the New Zealand industry into perspective is something other interviewees do. This analysis brings the domestic and the international together from the unique point of view of a company which is rediscovering the potential of the domestic market.
10	***Regional Leader***	Winery #10 clearly sees itself in a position of leadership in the development of a newer wine region. The company has been a pioneer in the area and sees a responsibility to help others to grow if the region itself is to develop.
	Forward integration	Part of the leadership role is to assist in the forward integration of grape growers who wish to produce their own wine rather than sell their grapes to other wine companies. A controversial area within the industry as others believe this process assists the over proliferation of small wine producers within the industry. Not mere philanthropy, however, this assists regional economic growth and winery #10 has the capacity to do this and it makes good business sense to utilise its assets to the full.
	Self-sufficiency	Having been a pioneer in the region, winery #10 has had to be independent (or perhaps the independence brought about he pioneering spirit). There are three key areas of independence and self-sufficiency. First, in grape supply: second in grapes vines: third in having its own sales force. The succession of the family business to the next generation might be seen as a fourth.
11	***New Entrants***	The bitterness in the industry which had been caused by the forward integration of grape growers and the resulting lower cost competition this had caused to incumbents. This had fragmented the industry and formal restructuring of the New Zealand Wine Institute was thus needed to recognise the different philosophies of industry players.
	Contract winemaking	Winery #11 made wine under contract for one overseas company and at least one New Zealand based company. [The fact that

		some forward integration of grape growers has been enabled by wine companies making wine under contract is perhaps an irony]. These arrangements were *ad hoc* and were based on personal friendships. The larger more ongoing one with the overseas company had been made somewhat more secure by the fact that the grapes which winery #11 also sourced were now bought under contract.
	Personal contact	The story of how when (s)he was first meeting overseas agents, advice had been given that one had to get on well with such agents and that if one did not have a good feeling about the agent then they should be changed. Thus the interviewee had accordingly changed every agent and had since had long standing relationships with all of them. Personal contacts were also important in relationships with other wineries and in how winery #11's sales force worked.
12	***Don't believe the hype***	The interviewee had been in the industry for over 20 years and whilst proud and positive about its achievements, (s)he was realistic about the size and importance of the industry globally. (S)he also looks back to the more ‘extended family’ nature of the industry which is being lost.
	What we've done for them	As a very large player in its industry and its region, this company has helped to build the industry and its markets. This was not altruism but of mutual benefit.
	Industrial scale production	There is nothing ‘lifestyle’ about this part of the wine industry. This cost leadership production efficient focus gives winery #12 a unique but strong position in the industry. As the manager of such a production unit the view of the interviewee is rich but quite particular to the industry.
13	***Parent/subsidiary relations***	The first set of stories (short ones in this interviewee’s case) revolve around managing a subsidiary and the changing nature of control and autonomy from and with head quarters. The region is important to the company, the share holders are not interested in wine, they are merely making a sound investment. Roles are clear cut: what the subsidiary does is clearly defined.
	“Exports are quite confusing”	Related to the interactions of parent and subsidiary, is the interviewee’s lack of involvement (interest?) in business areas outside winemaking, specifically marketing, exporting, sales and distribution.
	Grower relationships	The interviewee describes the divergent interests of growers and wine companies, and what (s)he sees as the ultimate deterioration of these, quite dispassionately. Oversight of contract drafting is the responsibility of head quarters and growers are managed by the vineyard manager but the interviewee seems to have no personal involvement in any other these non-company based relationships – not even with other wine companies in the region. (S)he only makes positive reference to other winemakers in the company.
14	***International ownership relationships***	There is much discussion of various aspects of operations, management and linkages within the group of companies of which winery #14 is a part. The parts are autonomous but clearly connected. The winery is clearly a New Zealand company and its role is clearly defined in terms of that wine making location and style.
	Paddock to World recognition	The interviewee has seen the development of the industry from the beginning of its modern growth from the mid 1980s onwards. (S)he sees the development of the industry from the point of view of green field investment rather than from its traditional historical roots.

	Few personal links	The interviewee mentions few personal links outside the parent company network, with the exception of the local distributor, which is embedded in a number of relationships in which winery #14 is also involved.
15	***Not much co-operation***	The interviewee says that there is not much co-operation between the wineries in the region and then goes on to describe a great deal of local co-operative interaction in terms of resource sharing, joint promotions, co-operation on local regional development and information sharing. It may be that this is because of a confusion between formal and informal co-operation.
	Visitors	The interviewee mentions visitors a good deal. This is a feature of the wineries which are subsidiaries of the larger companies. They have to be part of the local scene and add local colour for visitors. (S)he makes reference to the benefits that these visitors bring: learning from overseas agents about markets and at conferences from other winemakers, and promoting the company to agents and visiting wine makers. One also wonders whether the visitors help the sense of isolation which is the other side of the coin of autonomy from head quarters.
	Central control	The interviewee questions purchasing decisions made at head quarters based on accounting criteria rather than quality of service by suppliers. There is also clear control from the centre of contracts with grape growers. These two aspects remove autonomy from the local subsidiary and may add to its sense of isolation.
16	***Purely social***	The local wine tasting group, though purely social in intent, met a number of needs in terms of technical skills, new ideas and a local collective view.
	Growers' freedom	This interviewee believes that wineries treat grape growers badly and stresses the importance of both parties feeling that they can exit relationships without the need to break contracts. This view is maintained on the basis of interactions with only 5 growers and so arguably this view might change if the firm's interactions grow.
	Balanced supply	All inputs other than grapes are purchased on the basis of split or balanced supply so that there is flexibility and no over-reliance on one source.
17	***No contractual loyalty***	The interviewee is very bitter about broken grape contracts and has no trust in these relationships. This is based on experience and a view of grape growers as farmers rather than understanding the wine industry.
	Wine culture	Neither the country nor the industry have a true appreciation of a wine culture in the European sense. The interviewee makes a number of comments about the beer drinking lack of sophistication even to the extent of saying that despite growing them for 10 years, growers could not pronounce 'pinot noir' correctly.
	Network enthusiasm	On a more positive note, the interviewee is very enthusiastic about the Tradenz sponsored export network of which the winery is a member. There is no discussion about the merits of co-operation itself, this is purely a practical way of pooling costs and selling more.

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