# Strategic Change In Turbulence
## French Winery Strategic Shift in the World Wine Market

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**Abstract**

Even if since the initial stages of strategy studies, the relationship between strategy and context has been a critical issue and source of enthusiastic debates, this debate is still awaiting consensus.

What is uncontested is that when contexts become increasingly turbulent, strategic change turns to be vital to maintain the alignment with the environment and the overall efficacy of the firm.

Wine global market seems to be turbulent enough these days to be considered under these glasses. This turbulence materializes in market disruptive situations, namely changes in the degree of competition, in the number and demands of clients, in the overall growth in business services and globalization (Greenwood, Hinings, & Cooper, 1999).

It is our challenge and objective in this article to apply the theoretical propositions developed in a previous article. Using a retrospective longitudinal approach we will address the content, the process and the context of the strategic change introduced by a French wine producer, that try to cope with new market demands, becoming an *institutional insurgent*, (Hinings et al. (2004).

The major conclusion of this work is that the observance of institutionalized practices, technology and rules (Leblebici, Salancik, Copay, & King, 1991), is contested when major strategic choices are made to face a turbulent context.

**Key words:** Strategic change, turbulence, institutional insurgents, wine industry**.**

**Introduction**

This work continues an article presented at the Strategic Management Society Conference, Cologne, 2008: Institutional Insurgents: Institutional Conformity, Strategic Autonomy, and Strategic Alternatives. We will follow the propositions and models developed in that article and we will illustrate them with a case study.

Since the initial stages of organizational studies, the question of the primary determinant of the strategy -organization or environment- has been a critical issue and source of enthusiastic debates. Yet, its conclusion still awaits consensus (Astley & Fombrun, 1983; Bourgeois, 1984; Child, 1972; Levinthal, 1991).

This article builds upon the positions previously taken which suggest to fully integrating in the strategic change studies the interaction between market context, institutional context and organizational decisions (A. M. Pettigrew, 1987; Van de Ven & Poole, 1989).

Thus, to take part in this discussion we follow mainly the contextualists (Pettigrew 1985, 1990; McKelvey, 1997) that have insisted on the necessity of analyzing concurrently the content, the process and the context of the strategic changes of an organization.

We'll attempt to contribute to these discussion by addressing the influence of the institutional conformity degree of a firm, that is to say their observance of generalized practices, technology and rules (Leblebici, Salancik, Copay, & King, 1991), and the strategic changes made by a firm to face market disruptive, turbulent situations, namely changes in the degree of competition, in the number and demands of clients, in the overall growth in business services and globalization (Greenwood, Hinings, & Cooper, 1999).

Following this logic, we emphasize the importance of stress on the combined evolution of a firm's degree of institutional conformity and its strategic orientations.

The main rational here is that these elements evolve in an inversely proportional way: institutional insurgency is directly related to major strategic changes.

The scenario is the wine global market, that shows these days as much turbulence as necessary to be an adequate context for our discussion.

Despite the interest and amount of written production, few studies have been undertaken under the focus of the wine industry particularities, the dynamics of its strategic evolution or, even fewer, under the point of view of an Old World wine producer.

This work provides a better understanding of the strategic changes behind the improvement in the competitiveness of a producer of the so called Old World of the wine.

Our case, a French wine producer that since its beginnings in the 1930's has worked under the Old World conceptual framework till the 1990's, when he decided to radically change its strategy to cope with this new landscape challenges.

## Discussion and main proposition

The starting point of our first article can be perfectly illustrated by the expression "adaptation that undermines adaptability" (Seo & Creed, 2002). It summarizes our line of arguments widely.

In this line of thought, the organizations that resist conforming with conventional mandates probably are more flexible, innovative, catalytic and adaptive. A high degree of adaptation can restrain organizational adaptability to contextual changes (Kurke, 1988) diminishing autonomy or discretion for future decisions (Cook, 1977; Hambrick & Finkelstein, 1987; Pfeffer & Salancik, 1978; Thompson, 1967). Also, others have suggested that the ability to respond to technical demands has a superior (and better) impact in performance of the firms that the ability to respond to institutional demands. (Oliver 1997, cited by Kale and Arditi, 2003).

In other terms (Hinings & Greenwood, 1988; Powell, 1991), the conformity with the institutional atmosphere severely restricts the alternatives of organizational answers to contextual challenges and limits organizational forms in a organizational field. All search of strategic alternatives implies the mobilization of these structuring structures (Ferlie & Pettigrew, 1990; A. Pettigrew, McKee, & Ferlie, 1988).

Consequently, our **main proposition** is that when the context of a firm becomes increasingly turbulent, this conformity with conventional practices is severely contended. Therefore, introducing major strategic changes implies considering strategies of conventional practices rejection.

The first basic idea here, the concept of institutional conformity or institutional fit, has already been suggested by several authors (DiMaggio & Powell, 1983; Kale & Arditi, 2003; Kondra & Hinings, 1998; Oliver, 1991). Summarizing their arguments, the concept refers to the degree of organizational compliance to the institutional prescribed forms, routines and systems.

Following Leblebici et al. (1991) we accept here that there are essentially three phenomena that can become institutionalized: technologies, practices and rules.

- **Technologies** are standardized solutions to particular problems.
- **Practices** are agents' specific actions within an organizational field.
- **Rules** are the norms that delineate legitimate behavior and which become the standard and accepted form of behavior under particular circumstances.

We propose here that the institutional conformity degree can be described as the extent of compliance with each one of these three institutional dimensions.

In Table 1 a typology of institutional actors is proposed based on the degree of institutional conformity with the different conventional dimensions, according to the referred article.

| **Table nº1: Relationship between conformity and institutionalized dimensions** | | **Degree of Conformity** | |
|---|---|---|---|
| | | **High** | **Low** |
| **Institutionalized dimensions** | **Practices** | Orthodox | Heterodox |
| | **Technologies** | Stereotypic | Innovative |
| | **Rules** | Dutiful/Obedient | Rebel |
| **Actor** | | **Fully Institutionalized Actor** | **Insurgent** |

The second main concept is turbulence.

The researchers that paid special attention to the concept of turbulence (Miles, Snow and Pfeffer, 1974; Eisenhardt and Bourgeois, 1988), inspired by the conceptual developments of

Emery and Trist, propose to focus essentially on the extent, rate and predictability level of the contextual change.

The more broad, rapid and unpredictable the context changes appear to firms, the more turbulent this context is, and the more radical the impacts for the organizations.

The illustration of this line of arguments required the use of an adequate methodology to faithfully capture the dynamics of an organization's strategic evolution, taking into account its moments of change and stability, and their impact on the key concepts of this article.

Following Miller and Friedsen, (1982), when we try to understand how contexts, strategies and structures interrelate throughout time, the most adapted method is to adopt a historical perspective and to use longitudinal analysis.

As said before, few studies have been undertaken that focus on its particularities, the dynamics of its strategic evolution or, even fewer, following a contextualist method or under the point of view of an Old World wine producer. We analyze, therefore, the strategic evolution of a single firm, a French wine producer of the Languedoc-Rousillon region in the increasingly turbulent global wine market.

## The turbulent wine market

It is far and widely recognized in all sorts of publications, from academic papers to magazines, that the wine industry is showing unambiguous signs of critical structural changes. The radical change the international wine market is showing in the last 20 years can be identified in the increase in the world-trade, the emergence of new consumption habits and in the alteration in the distribution channels landscape.

Until the 1990s, this market was characterized by the predominance of long-established *wine countries*. This predominance can be seen in the volume of production, the consumption per capita and the world trade of wine.

At that time, local actors in these traditional industries where supported by strong and consolidated domestic markets.

But since de 1990s we witness a transition from traditional supply-driven production to new producers market-orientated types of wine and business models.

It is usually suggested that those that have been the first ones in recognizing these changes, the so called New World wine producers, have taken advantage of the excellent growth opportunities these changes were offering. On the other hand, the traditional ones, the Old World wine producers, have begun to see diminishing their share in the international wine market.

To briefly illustrate these changes, we can notice that the fall in world consumption of wine is a long-term trend (280million hl in 1970; 230million hl in 2009). In that context, while wine consumption in most of the traditional wine-producing countries continues to decline, growth in new countries is remarkable since the 1990s and even stronger in the 2000s (Table 2).

| Table 2: Wine cons. | Δ | 2000 | 2001 | 2002 | 2004 | 2005 | 2006 | 2007 | 2008 | Δ |
|---|---|---|---|---|---|---|---|---|---|---|

| (lts/cap) | 65-95 | | | | | | | | | 04-août |
|---|---|---|---|---|---|---|---|---|---|---|
| US | 5% | 7,4 | 7,4 | 7,7 | 8,45 | 8,82 | 9,12 | 9,57 | 9,68 | 14,50% |
| United Kingdom | 8% | 15,4 | 16,6 | 16,9 | 17,7 | 19,8 | 19,3 | 19,22 | 19,14 | 8,10% |
| Australia | 8% | 20,4 | 20,5 | 20,5 | 21,52 | 22,32 | 22,54 | 22,65 | 22,7 | 5,50% |
| New Zealand | 7% | 10,9 | 15,9 | 17,1 | 18,89 | 20,04 | 21,34 | 21,59 | 21,83 | 15,60% |
| Brazil | NA | 1,8 | 1,8 | 1,8 | 1,69 | 1,98 | 1,84 | 1,81 | 1,81 | 7,00% |
| Argentina | -2% | 33,7 | 32,1 | 31,6 | 27,84 | 27,48 | 27,81 | 27,3 | 26,8 | -3,70% |
| France | -2% | 58,2 | 56,9 | 56,1 | 54,7 | 55,8 | 53,55 | 53,22 | 53,22 | -2,50% |
| Italy | -2% | 53,5 | 52,4 | 48,2 | 48,68 | 46,47 | 46,44 | 47,99 | 50,06 | 2,80% |
| Spain | -1% | 34,5 | 34,8 | 34,1 | 34,4 | 33,88 | 33,44 | 33,29 | 32,92 | -4,30% |
| Germany | 1% | 24,5 | 24,3 | 24,6 | 24,08 | 24,08 | 24,19 | 24,14 | 24,14 | 0,30% |

Source: OIV and Faostat

This fall in demand mainly affected cheap table wine, whereas demand for quality wine has continued to increase.

Simultaneously, in terms of world trade, some countries – the traditional ones- are losing ground, whereas others are achieving remarkable growth (Table 3).

| Table 3: World trade Share | Av.81/85 | Av.86/90 | Av.91/95 | Av.96/00 | Av.01/05 | 2009 |
|---|---|---|---|---|---|---|
| 5 leading EU exporters (Gr, Sp, Fr, It, Por) | 75,60% | 78,80% | 75,50% | 71,20% | 65,20% | 59,90% |
| New Wold (Arg, Ch, SA, Aus/NZ)+ USA | 1,60% | 3,10% | 8,00% | 14,80% | 23,40% | 30,80% |
| PECO and Maghreb | 14,10% | 10,30% | 5,10% | 4,90% | 3,10% | 2,00% |
| Other Countries | 8,70% | 7,80% | 11,40% | 9,00% | 8,40% | 7,40% |

Source: OIV

As with every change, there have been some pioneers, some left behind, and some winners and losers.Traditional producers, embedded in a precedent logic, must face a double challenge: to overcome a strategic inertia, to surmount institutional anchorages and, at the same time, to incorporate new strategic insights.

Yet, some traditional wine companies have embarked on strategies that allow for successful growth. That is the case of Gabriel Meffre.

## The Case Study: GABRIEL MEFFRE

### 1930: The Beginnings

Gabriel Meffre was founded in the 1930s in Gigondas, France.

The small family business was born in a time of strong domestic consumption of table wines: in France 122 liters of wine per person per year is consumed!

The founders, Juliette Chauvet and Gabriel Meffre, begin the activity with a vineyard of 10 hectares surface. This land is a legacy of Juliette's family: traditional vine growers and wine-makers.

The typical structure of the French wine industry at that time shows the existence of a clear separation between the vine growing and wine making activities on the one hand and blending, aging and bulk commercialization activities on the other.But since the beginning of the activity the couple differentiated from the rest.

The family tradition of Juliette initially predisposes the founding team to the production of grapes and basic wines. However, Gabriel, that does not have a family history in wine, begins to develop a parallel and independent commercial activity, specialized on bulk table wines of Côtes du Rhône.

**1936: First Important Decisions**

The commercial activity becomes the center around which the rest of the activities are structured. It is important to note that at that time the French domestic consumption of wine is the highest in the world. In terms of consumption behaviors, the wine is an everyday beverage linked to sedentary and traditional lifestyles. Wine is purchased in bulk in proximity shops and fractioned just before consumption, at bars or households.

In accordance with this strong and stable domestic context, the company structure follows a very simple profit logic: benefits do not come from the production of basic wine but from its distribution.

Consequently,  Gabriel decides to build a fleet of 15 tanker trucks to distribute bulk wine from the south of France to large cities. The product is perfectly adapted to the daily French household consumption (a light and fruity, ready for consumption wine) and to the particularities of the consumption behaviors.

This strategic orientation has an important technical correlative: the control of the storage and transportation conditions. The commercial company incorporates a great innovation at that time, which is the temperature control of wines during transportation to ensure preservation until fractioning and consumption.

**1950s: The Impact of the Controlled Designation of Origin (AOC) Regulations**

The arrival of the AOC regulations to the Rhône region would severely modify the profit sources of the regional industry. Namely at the vine growing and wine making levels. Thus, the owners promoted a significant strategic shift.

Assuming that the source of benefits should shift from distribution to vine-growing and winemaking, they begun to buy land. Then, the small family firm , of an average size transformed in 25 years into a 900 hectares property.

It is then that the commercial visionary and the vine grower come into conflict. And that conflict turned to be fatal to the company.

Firstly, all the efforts made to ensure the geographical growth impacted on the commercial activity: all the profits made in the commercial activity are used to buy land.

There is also, and above all things, a basic strategic incongruity: the production activity is oriented towards the AOC wines, while the commercialization activity is still oriented to the transportation of bulk wines.

In the middle of the 1980s  the production branch produces AOC wines. This AOC wines are the cause of the slow death of the bulk wine transport activity. Wine isn't consumed the way it used to be: fractioning and bottling are made at the production sites.

It is also the beginning of a long and irreversible process of change of wine consumption habits in France. The consumption of wine decreases, specifically basic table wine.

**1987: The New Generations**

After the death of the founder, the production branch main orientation is the ownership of AOC vineyards and the production of AOC wines, while the commercial activity focuses on a declining business.

The new generation, personified in the person of Christian Meffre, quickly understands that these are times of increasingly differentiated wines. The activities that would allow the company to get all the benefits of the AOC wine production are the fractioning and bottling at the production site. We can recognize here, for the first time in the history of the firm, the early stages of branded wines.

However, with a commercialization activity structured around an outmoded concept, it is too late to begin a reorientation towards an *in-house* fractioning and bottling activity. As a result, given the financial weight of the land investments and the decline of the commercial activity, at the beginnings of 1990s the company has to be sold.

**The 1990s: New Owners, New Turbulences**

In February 1991 Europan Cellars, a british joint-venture between Allied Lyons and Whitebread, buys the 100% of the capital of Gabriel-Meffre. This event takes part in a time of increasing consumption of wine in Anglo-Saxon, traditional beer and whisky consuming, countries. The gravity center in the world distribution and consumption of wine began to reallocate.

But suddenly the British investor decided to freeze new projects and investments in the French territory and all the fresh funds flow to the periphery of the European Community (Greece, in this case).

**Mid-90s: The Era of the Trade**

Bertrand Bonet, commercial director at the arrival of the British investors is appointed as general director. Soon, the strategic focus of the company is re-oriented towards fractioning

and bottling. However, the new strategic orientation does not seem to be rewarding at the beginning. The lack of funds force them to sell a large part of the stocks of wine at very low prices in order to finance the re-orientation.

When, in the mid 90s, Allied Domecq (the British investors' name) announced will progressively get rid of all the activities in French territory, the commercial middle-management of Gabriel Meffre decided to buy the company with the support of an investment fund. The Gabriel-Meffre wine group is created, and Bertrand Bonet keeps the director's chair.

Learning from the past success and mistakes, the new managing team focus on the strategic compatibility between the wine-making and the commercial branches, being the latter the responsible for the major strategic definitions. It's the time of vertical integration.

The tankers history is an inspiration, but also a source of learning. Modern packaging equipment and transportation are now supported by the popularity of the Rhône Valley vineyards and wine-making team.

This period ends with the creation of GM Logistics, a subsidiary of the newly created company. This subsidiary is intended to be a distribution platform at the domestic echelon.

In a time when the super-market chains control more 70 per cent of the domestic consumption, a critical component of the value chain is mastered: the centralization of the offer to face the centralization of the demand. It is the time for new horizons: there is a clear orientation towards global markets and brand building. Time for horizontal development.

The family business that started as a small bulk wine producer and distributor has become a big group with international scope: the exports represent today more than 80% of the earnings, and bulk wine has been completely abandoned. In terms of structure, the company is fully integrated from production to distribution.

In order to broadening the range of products, since 2009 the company joins one of largest French wine traders from the Burgundy region: Boisset, through its subsidiary Varnier Investment. This new group represents an activity of 55 million euro, and sells 20 million bottles in 50 countries.

**Findings and Main Conclusions**

Our main proposition was that in turbulent contexts, radical strategic changes imply a high degree of institutional insurgency. We conducted an empirical and qualitative field work using a historical perspective and using a longitudinal analysis.The major finding here is that these elements evolve in an inversely proportional way: institutional insurgency is directly related to great strategic shifts.  In the analysis of our case we have seen the following elements supporting this idea.

While in France, the integration of production and trade activities only began in the early 1990s, the analyzed company does it in the 1930s, at a time of great industry specialization. We identify here a first sign of heterodoxy.

However, we identified some problems to coordinate a very orthodox activity (the adoption of AOC at the vineyards) and the heterodoxy of the overall business strategy direction. We can also notice a size growth in a French context of high fragmentation (average vineyard size does not exceed 7 hectares at that time in France)

We notice later a growing centrality of the commercial wing in the strategic decisions. This is another highly heterodox element: market-driven decisional structure. Going deeper in this direction we see that the main market target is the highly integrated retail channel. Following this logic they create a *turn-key* offer: wine production, stocking and transportation of a broad range of wines.

In summary, the major elements that describe the insurgent character of the analyzed company are: vertical integrated structure, growing size and geographic dispersion, focus on distribution and branding, international scope. This particular firm strategic shift pattern shows a change from an industry-driven logic to a market-driven logic, not only in the content of the strategy but also in the way of thinking strategy. Governing this new business model also implies a change on the government structures basis.

Thus, when radical strategic changes take place under turbulent contexts, the agreement between business models and industry level models is contended. Establishing a new way of doing business in a sector implies contending its logic, its institutionalized basis.

## Research and Managerial Implications

We believe that our work provides enough evidence for further investigating the firm level strategies for rejecting institutionalized practices and technologies, and for compatibilizing insurgent behaviors with highly institutionalized contexts.

In terms of international and managerial implications, we believe that when firms face contradictory systems of reference (i.e. international competition with strong local institutions) particular attention has to be paid to institutional rejection, institutional transformation and compatibilization implications of major strategic changes.

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