

**NETWORKS AND RELATIONSHIPS IN STRATEGY: A CASE STUDY OF  
THE NEW ZEALAND WINE INDUSTRY**

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**ABSTRACT**

This paper reports on a study which aims to add to theoretical understanding of how and why companies use relationships in their strategies. Studies in the field of strategy are under-socialised and traditional industry analyses, whilst capturing competitive dynamics, contain little human interaction. Studies of networks and relationships, whilst expressing the essence of relationships and interactions, perhaps take less account of the long run dynamics of particular industries and under-specify the diverse strategic approaches to competitive interaction. The study presented here blends the two and is set in an industry context thereby seeking to capture and explain the diverse strategic approaches to competitive interaction, bringing relationship analysis and industry analysis together. In analysing how and why companies within an industry use relationships in their strategies, data are drawn from an industry case study of the New Zealand wine industry. The research was conducted as a longitudinal study, and aims to capture and explain the relationship dynamics of the industry. In so doing, the paper offers a tentative theoretical explanation for the diversity of network interactions and how these are used strategically within a seemingly homogenous industry. Emphasis is given to change pathways which may be explained by relationship orientation.

**INTRODUCTION**

This paper reports on some findings of a longitudinal study which seeks to contribute to both strategic management theories of relationship processes and the industrial marketing and purchasing approach by offering an explanation of the diversity of strategic pathways and relationships within a seemingly homogenous industry. Of particular concern is how firms use their networks in formulating and implementing their strategies and how they evaluate the outcomes of these networks and the strategies which arise from them. The research attempts to explain some of the multi-level relationship dynamics of a single industry, with particular reference to the effect of relationship orientation on changes in network and relationship strategy. This paper focuses on the changes (or not) identified in relationship orientation among some case study firms over a five year period and proposes some explanations for the different change paths followed by eight case study companies. The paper is structured as follows: firstly, the literature is reviewed

relating to networks, relationships and strategy, how these are used in strategy and how such use may change. A brief discussion of method is followed by the case descriptions. Analysis and some tentative explanations of the change pathways conclude the paper.

## **LITERATURE**

### **Business Relationships: Both Economic and Social**

Firms or organisations are 'the context in which social relations and economic exchange are embedded' (Ghoshal and Moran 1996:41). 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). It may be that the strategic management literature has focussed overly on the economic/rational (Cool, 1993; Day, 2002; Fredrickson, 1989; Grant, 1995; Hamel, 1994; Hamel, 1989; Jarillo, 1993; Kay, 1993; Miles, 1978; Porter, 1980; Thorelli, 1986) and that the industrial marketing literature has focussed traditionally on the social and what may be needed is an approach combining the two (Baum, 1996; Blois, 1990; Eisenhardt, 1996; Ford, 1995; Ostgaard, 1994; Ramirez, 1999). Whilst the economic or the social may co-exist or predominate in the analysis of strategy, and thus in the analysis of inter-firm co-operation and relationships, firm behaviour can exhibit both simultaneously (Dunning 1976; Ghoshal and Moran 1996; Granovetter and Swedberg 1992; Powell 1990; Smelser and Swedberg 1994; Swedberg 1990).

### **Relationships in Strategy**

Håkansson and Snehota (1989) offer one of the few discussions which combines the Industrial Marketing and Purchasing (IMP) and the strategic management approaches to inter-firm co-operation and relationships. Analysing firm networks within the context of three central issues in strategic management: the question of organisational boundaries; the determinants of organisational effectiveness; and the process of managing business strategy, they emphasise a shift in focus 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). Increasingly organisation theory on the interface between the organisation and its environment tends to conclude that the individual organisation is embedded in its environment and its behaviour is thus greatly constrained, if not predetermined (Carroll, 1995; Ebers, 1999; Grandori, 1999; Nohria, 1992; Perrow, 1986; Powell, 1999). Håkansson and Snehota (1989) assert that strategic management as a discipline still assumes that organisations possess a certain degree of freedom of choice.

### **Emergence and Intentionality in Strategy and Networks**

The issue of whether and how networks and relationships are planned or whether they emerge naturally over time is a constant theme in both the industrial marketing and the strategic management literatures about the formation of and change in inter-firm relationships.

"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).

In general, discussion of co-operative strategies and the formation of networks in the strategic management literature centres around intentionality and focuses on specific

projects. Firms only invest in relationships if there is a specific, definable project (Walker 1998) and it is largely a rational process (Child and Faulkner 1998:81). One of the key *lacunae* in this literature is the lack of attention to the spontaneous or naturally occurring nature of networks of relationships and interactions which are clearly identified in the industrial marketing approach (Benson-Rea 1995). Thus the accepted approach appears to be one of 'intended' rather than 'emergent' strategy (Mintzberg and Waters 1985).

“Rather than positing that situational contingencies determine which co-operative strategies will be successful, SMT [Strategic Management Theory] allows for the exercise of strategic choice by the actors who are deciding on firms' policies.” (Child and Faulkner 1998:34).

Alliances (an intentional, narrow view of cooperative relationships) are seen in strategic management as the 'normal agent' for cooperative strategies (Child and Faulkner 1998 p5). This is a narrow view of relationships (as intended and chosen) when compared with the evolutionary, emergent one which underpins the IMP approach. To clarify this difference, Araujo et al suggest that the distinction may lie in what is purposive action and what is a 'by-product of other activities' (Araujo, Bowey et al. 1998:82). The distinction is also found 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). These latter may sound accidental but there may be unforeseen, unintended, serendipitous outcomes of firm and individual interaction.

The strategic management literature on co-operative strategies, then, is largely informed by the assumption of economic rationality. The usage of terms is important. Networks and relationships may be intentional or emergent but the two are distinctly different: the former will be managed consciously whereas the latter may just be there (Araujo, Bowey et al. 1998). Alliances are created in response to new opportunities or challenges. Whilst acknowledging the need for commitment and trust, Child and Faulkner (1998) take a narrow perspective and see collaboration as being about organisational learning and believe that they 'should be structured towards that end'. The strategic management literature sees other forms of co-operation, such as virtual organisations, networks and outsourced corporations, as merely about capability substitution and overlooks 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. Table 1 summarises the traditional strategy view of networks: they are an answer to a specific question or problem (Thorelli 1986).

### **Relationship and Network functions**

Relationships and networks do serve particular purposes in strategy. 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 functions 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).

**Table 1: Strategic Issues In A Networking Context**

Strategic Issues In A Networking Context	
Positioning of the firm and its product	Split versus unified sourcing
Marketing channels and franchising	Transactions between company divisions
Patent and trademark licensing	Cartels
Turnkey contract and 'systems selling'	Interlocking directorates
Barter and reciprocal trading	Joint ventures, mergers and acquisitions
Internationalisation	Vertical integration
Make-lease-or-buy decisions	Diversification

Source: (Thorelli 1986:37-38).

Walter et al usefully categorise some key business market relationships from the supplier's point of view:

- 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:
  - 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).

Whilst these functions take a specifically marketing view, Walter et al (2001) recognise the economic bias of the functions they explore and suggest the possible inclusion of a social function.

Taking a wider perspective, Powell argues for 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). Johanson and Mattsson (1992) identified a number of dimensions of firm interaction in networks:

- 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 (Johanson and Mattsson 1992).

Thus the function performed in strategy by the network relationship in terms of outcomes may vary considerably. This will have an influence on the way in which the relationship is viewed and evaluated.

## **The Value of Relationships**

Increasing research attention is focusing on the problem of how firms evaluate their interfirm linkages and the relationships in which they invest. With the ultimate aim of evolving tools to assist managerial assessment and decision-making in the area of business relationships, variables are being identified and methodologies are emerging to pilot and test evaluation tools (Ford, McDowell et al. 1995; Srivastava, Shervani et al. 1998; Sydow and Windeler 1998). In terms of relationship value, Walter et al (2001) argue that since value creation in business markets is about benefits and sacrifices, the more a relationship fulfils value functions for the firm the more it will value that relationship. In their investigation of interaction, interdependence and value creation, Holm et al (1999) argue that value creation in networks of business relationships is the result of mutual dependence which arises from mutual commitment derived from business network connections. Business relationships imply the co-ordination of exchange and production activities which augment their interdependence thus increasing their joint productivity and creating relationship value, that is, the joint economic performance of the partner firms. The co-ordination is influenced by the network context of the interacting firms (Holm et al. 1999). Setting their work within the IMP context (Ford 1990; Hakansson and Johanson 1990; Hakansson and Snehota 1995), Holm 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 (sic) critical.” (1999:481).

In contrast with the traditional view of value creation in industrial production, Ramirez (1999) sets out his view of value co-production, which is primarily achieved through technical breakthroughs and social innovations. In value co-production, he argues, customers consume or destroy value: in value co-production, value is “synchronic and iterative, not linear and transitive” (1999:50). Thus:

“Value is not simply ‘added,’ but is mutually ‘created’ and ‘re-created’ among actors with different values.” (ibid).

Holm 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. The contention in the present study is that the provenance or development pathway of relationships will have a bearing on how they are subsequently viewed unless there is a conscious decision to do otherwise.

Ramirez agrees with what he calls the resource-based strategy authors (Barney, for example) in 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<sup>1</sup> upon which economic value rests.” (1999:51)

The chief implication of this view is the importance of the 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 (1999:55). Thus “the multiplicity of values, held in relations with multiple actors, ...cannot be reduced to a single metric” (1999:55). Further, there is a need to balance the economic functions with the social functions.

In terms of how firms (and people?) behave in inter-firm relationships, there is a clear tension between economic and social approaches. Gassenheimer et al (1998) position Williamsonian transaction cost analysis (TCA) against the interorganisational view which, they argue, looks beyond short-term, financially driven goals to the long-range welfare of relationship partners. Social exchange theory (SET), they believe, argues for the behavioural evaluation of relationships, looking at social value in terms of satisfaction with partner and comparison of alternatives to achieve relationships objectives. Thus the differences are: 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. The two approaches are similar, however, in that they evaluate relationships in comparison with 'their own value solutions' by which they mean that which is valued within the context of the theories. In developing criteria for evaluating and distributing value, Gassenheimer et al (1998) argue that because recent research focuses on economic equity as the evaluation criterion, this is to omit other factors which add to complexity. They look first at the importance each party places on the economic and social value of each relationship.

### **Change in Networks**

Benson-Rea and Wilson (2000) review change in networks from the perspective of performance. Networks build up as activity links, actor bonds and exchange ties develop within relationships (Hakansson and Snehota 1995). The nature of these three factors may change over time, deepening or becoming less important. As relationships mature and develop, they combine with and link to others through direct and indirect connections. Within the markets as networks approach, Johanson and Mattsson (1988) see networks as "stable *and* changing"(1998:290). Describing relationships as constantly changing through the partners' efforts to 'maintain, develop, change and sometimes disrupt the relationship' these processes take time and have a cumulative effect on both the relationship itself and the partners. Powell et al (1998) describe a network as having a lifecycle, whereby collaboration speeds up innovation which, together with the experience of collaboration, changes the nature of the interactions themselves.

Over time the micro-positions occupied by actors within a network become more numerous, as new actors become involved, or sparser, as actors leave. Araujo and Easton (1996) see structures are the 'temporary and transient effects of these primary network processes' (1996:67). Within organisational theory, Walker (1998) argues, from a more micro, dyadic perspective, that firm strategy and network structure interact over time and that network formation does not follow a predictable path but changes by structural increments. Lundgren (1993) sees networks as: "composed of two complementary, but contradictory processes; the generation of variety and the organizing of everyday life" (1993:149). He 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 development of the new network as a whole (1993:169). Taking 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 (or growing?) to three sets of factors:

- 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 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).

### **Relationship lifecycles/pathways**

Firms may evaluate their relationships and networks with reference to the same frames with which they evaluate other strategies or they may evaluate relationships differently. All firms have relationships with other firms and organisations but some make intentional use of these in their strategies, whilst others do not. Managers in firms may not always be aware of how they use their business relationships or how they might use them. Networks and relationships have lifecycles and pathways of development (Benson-Rea and Wilson, 2000; Easton, 1992; Easton, 1993; Holm, 1999; Larson, 1991; Powell, 1998; Uzzi, 1997) 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. Hite and Hesterly (2001) make the argument that firms use socially based networks at inception and in early development, which is in keeping with the entrepreneurship literature (Araujo, Bowey et al. 1998; Birley 1985; Eisenhardt and Schoonhoven 1996; Larson 1991; Larson and Starr 1993; Ramachandran and Ramnarayan 1993) but that as they move on to early growth they make more intentional use of transactional (arm's length) relationships and that this process is paralleled by moving from path dependency to more intentional management of relationships (Hite and Hesterly 2001). Thus networks and relationships have an identifiable lifecycle: pre-conditions, formation, operation, change or adjustment and endings. A key distinction in views of network and relationship formation is between those who see these as intentional, deliberate and planned and others who see them as spontaneous, naturally occurring and emergent. Putting these two concepts together may help to understand how firms use and manage their relationships strategically.

### **METHOD AND INDUSTRY BACKGROUND**

The research reported here used the case study method (Yin 1994) and data were gathered from companies in the New Zealand wine industry. The New Zealand wine industry was chosen as a suitable vehicle for data collection as it displays both co-operative and highly competitive interaction. The New Zealand context is rather unique: it is a small, seemingly close society exhibiting strong social bonds among some business actors but also displaying a highly independent business culture. In addition to sharing geo-spatial features, all wine producers are legally obliged to belong to a single industry body, New Zealand Wine Growers. 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, Blunden et al. 1993; Moran, Blunden et al. 1993) and one encompassing those of the fast moving consumer goods (FMCG), agribusiness and hospitality sectors (Rabobank 1999). Thus the context of this study, the New Zealand wine industry, is an industry group which exhibits complex linkages of many different kinds.

The research methodology involved face-to-face in-depth interviews with a theoretically sampled (Eisenhardt 1989) group of 8 case study companies. The research was carried out over five years and thus aims to capture some elements of the longitudinal dynamics of the industry and phenomena under investigation within that particular ‘industrial system’ (Easton 1992). The spatial boundaries are defined by the ‘natural’ geographic boundaries (Mazet-Crespin 1995) - the interview firms are located within sub-regional clusters of the wine industry in both the North and South Islands of New Zealand. A semi-structured question guide was used to elicit a descriptive account of the nature and structure of relationships within the industry. In earlier research the firms had shown very similar characteristics in terms of size, product range, sales, market coverage and performance but exhibited very different approaches to relationships and strategy. Of interest were the firms' differing approaches to relationship strategy: in summary, ‘embedded’ refers to a predominantly socially based approach: ‘transactional’ refers to primarily arm’s length, market-based relationships: ‘hybrid’ refers to the use of a mix of approaches. Data were collected from the head of each firm, ranging from co-heads of family-run firms to what one might term ‘professional/career’ managers in Chief Executive Officer or Chief Operating Officer positions. The aim was 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. Details of the sample are set out in Table 2 below.

**Table 2: Sample Firm Characteristics**

Firm	Age <sup>1</sup>		Size <sup>2</sup>		Relationship Orientation		
	Young	Old	Medium	Large	Embedded	New Hybrid	Transactional
A	√		√			√	
B	√		√		√		
C	√		√				√
D	√			√			√
E		√	√		√		
F		√		√	√		
G		√		√		√	
H		√	√				√

<sup>1</sup> This relates to foundation before or after the modern era of growth of the industry circa 1980 onwards.

<sup>2</sup> This relates to litres of wine sales per annum, medium =  $\geq 200,000$  &  $< 2,000,000$ ; large =  $\geq 2,000,000$ .

## **CASE DATA AND DISCUSSION**

The analysis described here is based on three aspects of the firms views of relationships: their relationships orientation, which refers to the predominant style and is not intended to be seen as a pure type: their use of relationships in strategy, especially purpose; and the change processes identified in the firm's use of relationships. A brief case description of each is given, followed by a summary and a discussion of possible interpretations. The 8 cases are grouped, as in Table 2 above, under the headings of their predominant relationship styles. The descriptions contain interview phrases that aim to encapsulate the relationship orientation:

## **CASE DESCRIPTIONS**

### **Embedded Relationships**

#### *Firm E*

This is an older, medium sized firm which is at the 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 have a reputation as innovators and leaders, especially in the early knowledge sharing of the growth of the industry and its quality. They were still doing this until recently even though running a successful maturing company. They made extensive use of relationships and were embedded in a number of supplier, producer and distribution networks. Strategy has been emergent, responsive. The principals of the firm remain committed to the way in which they have done business in the past and to the way the industry has developed, having some clear preferences for the way in which they do business. In terms of change, the firm's growth and success have gone in parallel with the industry itself although the co-founders have now sold out to an Australian partner and have gone off to start up another small winery. Their collective approach is 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”

#### *Firm B*

Also a medium-sized winery, this firm is rather younger than firm E. It also makes extensive use of local social networks but seems to do this for two reasons. One is to have control, face to face and hands on. The company has its own sales force and works very closely with all of its distributors, negotiating carefully and monitoring them. The other reason has been a strong leadership role taken on in order to grow the industry in its particular region, seeing itself as the focal firm. The key strategy here has been to process grapes into wine for forward integrating grape growers, thus building up the local critical mass of the industry and putting the region 'on the map'. The strategy of using a strong relationship approach is very clearly intentional and articulated. In terms of change, the company founder emphasises how (s)he has learned from mistakes, is happy

with the position they are in now and the only identifiable issue is that of family succession, which is in hand. In terms of the company's critical relationship, however, it is 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."

### *Firm F*

This is an older, large winery whose founder is still at the helm and is a well respected 'elder statesperson' of the industry. The company has a very strong culture, led by the owner, based on the traditional social relationships and values of the industry, although (s)he admits the industry is less social than it was. Using innovation, readily shared in the wine area, and now in the financial structure of the company, the firm is clearly set for continued growth. Maintaining the growth path of the company, there is no clearly predominant approach in terms of emergence or intentionality. In terms of change, there will be continuing stability until succession becomes an issue. There is no question about the critical relationship 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."

## **Transactional Relationships**

### *Firm C*

This firm is wholly owned by a large international diversified drinks business. It was established in New Zealand in the later part of the early growth of the industry in order to provide a particular product to the portfolio of its parent company. It is run by a person with very strong connections in the New Zealand industry (held in high regard and active in the industry) but all aspects of its relationships are predicated on what is required to fulfil its mandate from within the New Zealand context. Thus relationships are dictated by the structure of the local industry and environment, to produce a New Zealand product by a New Zealand team, managed locally. Crucially, all resources have been and are provided through the parent company or are generated by the New Zealand company itself, except a large proportion of the important local resource, grapes. Strategy is allowed to emerge locally but with direction from the parent company. In terms of change, again this winery's growth has paralleled the recent development of the industry but any internal change, of which there is little, is initiated by the parent company and though firm C is kept informed, none is envisaged by firm C itself. The critical relationship is 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."

“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.”

#### *Firm D*

This is a newer large wine company, publicly owned with a strong corporate culture and structure and with clearly defined strategies and processes. It sees itself as a leader of the industry and, whilst it has shared with and helped the rest of the industry, its view of relationships is pragmatic and shareholder driven. Strategy is clearly defined, intentional, but subject to the activities of the global market for corporate control. In terms of change, this is apparent in the stock market and the changes in corporate control being seen in the industry. 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...”

“no we don’t have to screen we know exactly where we want to be...”

“Well we have an expectation of them, of excellence and providing excellence and they understand change, we want stability in a dynamic relationship”

“people like working with [firm D] because it’s successful so, we’re a very successful organisation.”

#### *Firm H*

This is a medium-sized player, one of the oldest established wine companies in the industry, still family owned and run. This company has a very clearly held policy of controlling all of its own resources where it can and only working in co-operative relationships where it must. Having had a chequered and difficult history, the principals have learned from their experiences, consider that the older ways no longer apply and so consciously changed their approach to business. Intentionality, peppered with opportunism, best describes firm H’s approach to strategy. In terms of change, the company has grown and developed right from the historical beginnings of the industry, was an embedded industry player but changed its view of the industry and now has major plans to continue its own internally driven and carefully controlled expansion.

“we’re mapping and planning and doing analysis that, we work 10 years in advance”

“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 we do, when we 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 xxxx and dictate.”

“We do not make wine because we think it’s a good idea. We make wine because we know that we have a market for it.”

“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.”

## **Hybrid Relationship**

Both firm G and firm A use a mixture of both approaches to their networks of relationships. Both have arm's length, buy-sell transactions which others based on close relationships, with both for example buying grapes and juice on the spot market at a time when the trend has been to either expand internally and grow more one's self or to form close alliances with growers to secure access to quality crops. Both have products in all parts of the quality range. Both are also working in innovative local and international marketing and distribution networks which they nurture closely and in which they have each built close network ties.

### *Firm G*

This is an old established New Zealand wine company which has changed its approach over the years – having grown with the rest of the industry based on resource and information sharing, it now uses those skills in new business areas and seems to have discontinued using the relationship approach in its traditional areas. The family members who are still active in the company are well respected in the industry. Strategy has been a mix of intentionality and emergence, with the latter (opportunity driven) seeming to predominate recently. Over recent years it took on equity partners and, like firm E, Firm G was recently sold to a larger alliance partner and again the key principals have gone and started up another winery. In terms of change, this has already occurred and it is expected that future initiatives will come from the new parent company.

“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] Wines and also the company was floated on the market in December xxxx. The shareholding has changed, no blood family now”

“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”

### *Firm A*

This winery, on the other hand, is new. 100% overseas owned, like firm C it has a clear strategy based on a mandate to provide New Zealand products for the international parent company. It too is building relationships in some critical areas – grape supply and production, distribution and marketing for example, but leverages resources. In terms of change, the firm has a clear intentional strategy for the New Zealand market, based on parent company strategy. It is fully overseas owned but works in alliances and joint ventures both domestically and internationally, doing all of these from inception.

“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.”

## **EXPLAINING THE CHANGE PATHWAYS**

When analysis of evidence of intentionality, of conscious strategic choice, is put into the mix, clear groupings and pathways can be identified based on the development of the

firm. Again, this tentative analysis is based on the dominant style and is not meant as a pure type. In summary, these are displayed in Table 3 and discussed below.

**Table 3: Summary of Strategy and Relationship Approaches**

<b>Strategy Approach</b>	<b>Embedded</b>	<b>Transactional</b>	<b>Hybrid</b>
<b>Emergent</b>	Firm E	Firm C	Firm G*
<b>Intended</b>	Firm B	Firm H*	Firm A
<b>Mix</b>	Firm F	Firm D	-

\* = Changed approach

In terms of those firms which do not appear to have changed their relationship approach:

- Firm A is intentionally using a mix of relationship approaches from inception and is continuing in that direction.
- Firm B is intentionally using an embedded, social approach to achieve the specific objective of building the local industry. It is consciously staying embedded.
- Firm C's strategy, using an arm's length approach to business relationships, has emerged and developed and only ownership changes would change this approach currently.
- Firm D has used a mix of strategic approaches growing successfully and will continue with the same.
- Firms E and F's strategies have grown and emerged with the growth of the industry, following opportunities and no change is envisaged to that.

In terms of those firms which have changed their relationship approach:

- Firm G has followed opportunities for growth, moving away from a social to a more hybrid approach to relationships, taking on shareholding partners but maintaining close relationships with suppliers among others.
- Firm H consciously chose to become more transactional and to discontinue reliance on close social relationships.

In summary, these are the changes identified among the eight cases:

No change:

- Firm A: Is new and using a hybrid approach from inception (H → H);
- Firm B: Has used an embedded approach, and is staying with that (E → E);
- Firm C: Has used a transactional approach, and is staying with that (T → T);
- Firm D: Has used a transactional approach, and is staying with that (T → T);
- Firm E: Has used an embedded approach, and is staying with that (E → E);
- Firm F: Has used an embedded approach, and is staying with that (E → E);

Change:

- Firm G: Has moved from an embedded to a hybrid approach (E → H);
- Firm H: Has moved from an embedded to a transactional approach (E → T).

These cases show that neither the intentional viewpoint, in which firms can 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 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 paper argues 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 emerges from the cases above is that the use of networks and relationships can be consciously managed, for quite similar outcomes but from very different relationship perspectives. Taking a dynamic view of relationships and trust, a wider view of relationships, such as relational quality (Arino, 2001; Naude, 2000), may provide more insight into the nature of co-operation and interaction.

## CONCLUSIONS

Whilst many New Zealand studies have been made of the wine industry (Mabbett 1998; Barker 2001; Lewis 2001; Lindgreen 2001; McGregor 2001; Moran 2001), and some have looked at relationships within the industry (Beverland 1999; Lindgreen 2000; Beverland and Lindgreen 2001; Lindgreen 2001), none has taken the approach of combining strategic management and industrial marketing in the study of networks within the industry. The methodology, described above involves qualitative data collection using interview methods: few studies are informed by in-depth data from key informants across entire strata of a national industry.

Wilkinson and Young have pointed out that the study of networks:

“leads to new ways for understanding and developing business strategy, as well as several challenging research opportunities that are only now beginning to be explored” (Wilkinson and Young 1994 p13).

Identifying how firms select and place value on their network strategies will add to understanding of the role and usefulness of network strategies in general, and will contribute to understanding of 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 interactions, 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.

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<sup>i</sup> Ramirez refers to Simmel (1977:82) in this context.