CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THIS STUDY

The family owned business is an important field of study for understanding the past, present and future of the global economy, as family owned businesses comprise between sixty five percent and eighty percent of all business establishments world-wide with a contribution of between forty five percent and ninety percent of the Gross National Product (GNP) of their respective countries [Litz, 1995:7; Neubauer & Lank, 1998; Le Van, 1999; Rawls, 1999:6]. The economic shift towards entrepreneurialism coupled with the downsizing of public corporations gives family business study added significance as they are major contributors to economic growth and employment [Carlock & Ward, 2001: xiii; Ward, 1988: xv; Gersick, Davis, McCollum Hampton & Lansberg, 1997:2; Le Van, 1999: xi; Rawls, 1999:6].

There is consensus amongst family business researchers that this unique form of organisation, family firms, is the economic motor of the free market economies [Carlock et al, 2001: xiii; Ward, 1988: xv; Gersick et al, 1997:2; Le Van, 1999: xi; Rawls, 1999:6].

Interest in family business is growing because a number of founders now face retirement, many younger people are entering their family businesses because they see the opportunities to advance more rapidly than in non family firms and many start up firms will become family businesses. Thus the welfare of the family firm is more important than ever [Ward, 1988; Carlock et al, 2001; Gersick et al, 1997; Le Van, 1999; Aronoff, Astrachan, Mendoza & Ward, 1997].

As stated by family business researchers [Neubauer and Lank, 1998; Rawls, 1999; Rosenblatt, 1985; Smith, 1999; Morris, Williams, Allen & Avila, 1997]
studies on the longevity of family organisations made in several countries all come to the same conclusion: succession represents the most critical issue facing family businesses and if managed, the family business will survive. This is supported by researchers in the United Kingdom [Connelly and Jay, 1996; Oliver, 1996; Henshaw, 1997; Brown & Coverly, 1999], in Europe [Ibrahim, Soufani & Lam, 2001; Henshaw, 1997; Stavrou, 1996], in the United States of America [Matthews, Moore & Fialko, 2000; Erven, 1996; Cliffe, 1998; Zaudtke & Ammerman, 1997; Drucker, 1995; Davis & Stavrou, 1998; Stavrou, 1996; Rosenblatt et al, 1985; Handler, 1989], in the East [Stavrou, 1996] and in South Africa [Venter, 2003; Maas, 1999]. The general tendency is clear: between two thirds and three quarters of family businesses either die or are sold out of the founding family during the first generation's tenure. This trend can be reversed. These figures compare unfavourably with the staying power of equivalent non-family controlled companies. The importance of family businesses to economies indicates that this lack of longevity or lack of succession needs to be addressed to enhance and maintain family business economic and entrepreneurial contribution.

1.2. SOUTH AFRICAN FAMILY BUSINESS

The high percentage of family business, as a percentage of total businesses in other parts of the world is replicated in South Africa. Family businesses comprise approximately eighty percent of South African businesses and approximately sixty percent of companies listed on the Johannesburg Stock Exchange [Balshaw, 2004]. With the current economic climate in South Africa, the rationalisation of large businesses and the inability of the formal sector to create employment, it would be expected that the family business sector's importance and significance would increase.
1.3. FAMILY BUSINESSES IN THE SOUTH AFRICAN WINE INDUSTRY

The South African wine industry is polarised into the quantity-producing majority and the quality-conscious minority [Hughes, 2003]. The quality-producing sector of the South African wine industry is dominated by family businesses. Research shows that there are approximately ninety family-owned wineries in South Africa. By international standards, South Africa is viewed as a quantity, not quality producing wine country, which will make it difficult to survive in an industry where quality is paramount for recognition. The ‘trailblazers’ of the international wine industry are family owned wineries [Robinson, 2000]. Twenty five percent of the 2003 five star South African wines were made by individuals or family wineries [Hughes, 2003], emphasising the growing importance of family wineries in the production of quality wines.

It is important now, more than ever, with the industry opening up internationally, that survival of the family-owned wineries and their production of icon wines are promoted so that they can become flagship producers of the industry. The achievement of international status as a quality producing country, as well as building an industry based on the longevity of wine producing families, as well as a nation of wine lovers in South Africa should result.

At present 110 200 hectares of wine producing wine grapes are under cultivation in South Africa over an area of some 800 kilometres in length. The industry employs approximately 348 500 people that includes farm labourers, packaging, retailing and wine tourism. The Western Cape wine region contributes R16.3 billion gross domestic product to the regional economy according to a study conducted in 2000 by the SA Wine Industry Information and System (SAWIS) of which R4.2 billion was generated indirectly through wine-tourism activities centred in the wine lands [www.wosa.co.za/SA/ statistics.htm].
Although local vineyards account for just 1.5 percent of the world’s vineyards, South Africa ranks as number nine in volume production of wine and produces 3.1 percent of the world wine [www.wosa.co.za/statistics.asp].

The export of natural bottled white wines for 2003 calendar year reached 237.3 litres, an increase of 10 percent on the previous year. Export for the same period of bulk white wines was at 66 million litres, accounting for 30.5 percent of export by volume. With more red wine becoming available, export sales of bottled red wine grew for the year to 75 million litres, an increase of 33 percent [www.wosa.co.za/statistics.asp].

The wine industry in South Africa is much wider than signified by the definition of the word wine as it encompasses drink wine, rebate wine, distilling wine, brandy and other spirits distilled from distilling wine and grape juice and grape concentrate for use in drinkwine and non alcoholic products [SAWIS, 2004]. However, for the purposes of this study, the definition of wine as defined in Chapter two will be used so that the outcome will be of international relevance.

A complete schedule outlining the extent of the South African wine industry can be seen in Table 1.
Table 1  Extent of the Total Wine Industry

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<thead>
<tr>
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<tbody>
<tr>
<td>White Varieties</td>
<td>783 870</td>
<td>832 243</td>
<td>861 339</td>
<td>103.50</td>
</tr>
<tr>
<td>Red Varieties</td>
<td>229 656</td>
<td>325 748</td>
<td>367 058</td>
<td>112.68</td>
</tr>
<tr>
<td>Table Grapes</td>
<td>66 349</td>
<td>75 698</td>
<td>83 787</td>
<td>110.69</td>
</tr>
<tr>
<td>Total</td>
<td>1 079 875</td>
<td>1 233 689</td>
<td>1 312 184</td>
<td>106.36</td>
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<tr>
<th>PRODUCTION</th>
<th>MILLION L</th>
<th>MILLION L</th>
<th>MILLION L</th>
<th>2004/2003 TREND</th>
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</thead>
<tbody>
<tr>
<td>Wine</td>
<td>34.240</td>
<td>712.661</td>
<td>696.788</td>
<td>97.77</td>
</tr>
<tr>
<td>Rebate Wine</td>
<td>26.797</td>
<td>50.453</td>
<td>85.357</td>
<td>169.18</td>
</tr>
<tr>
<td>Distilling Wine</td>
<td>124.794</td>
<td>122.209</td>
<td>145.775</td>
<td>119.28</td>
</tr>
<tr>
<td>Non-alcoholic</td>
<td>115.325</td>
<td>70.692</td>
<td>87.777</td>
<td>124.17</td>
</tr>
<tr>
<td>Total</td>
<td>834.156</td>
<td>956.015</td>
<td>1 015.697</td>
<td>106.24</td>
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</tbody>
</table>

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<tr>
<th>PRODUCERS’ INCOME</th>
<th>MILLION RAND</th>
<th>MILLION RAND</th>
<th>MILLION RAND</th>
<th>2004/2003 TREND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grapes to producing wholesalers</td>
<td>218.991</td>
<td>340.765</td>
<td>343.618</td>
<td>100.84</td>
</tr>
<tr>
<td>Wine</td>
<td>1 594.078</td>
<td>1 881.906</td>
<td>1 996.274</td>
<td>106.08</td>
</tr>
<tr>
<td>Rebate Wine</td>
<td>41.722</td>
<td>110.412</td>
<td>197.858</td>
<td>179.20</td>
</tr>
<tr>
<td>Distilling wine and non-alcoholic</td>
<td>220.659</td>
<td>243.018</td>
<td>252.790</td>
<td>104.02</td>
</tr>
<tr>
<td>Total</td>
<td>2 075.450</td>
<td>2 576.101</td>
<td>2 790.540</td>
<td>108.32</td>
</tr>
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<tr>
<th>DOMESTIC SALES</th>
<th>MILLION L</th>
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<th>MILLION L</th>
<th>2004/2003 TREND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Wine*</td>
<td>350.703</td>
<td>308.197</td>
<td>308.707</td>
<td>100.17</td>
</tr>
<tr>
<td>Fortified Wine</td>
<td>30.364</td>
<td>33.000</td>
<td>34.551</td>
<td>104.70</td>
</tr>
<tr>
<td>Sparkling Wine</td>
<td>7.327</td>
<td>7.500</td>
<td>7.688</td>
<td>102.51</td>
</tr>
<tr>
<td>Brandy @ absolute alcohol</td>
<td>17.546</td>
<td>18.072</td>
<td>18.885</td>
<td>104.50</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>EXPORTS</th>
<th>MILLION L</th>
<th>MILLION L</th>
<th>MILLION L</th>
<th>2004/2003 TREND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Wine</td>
<td>215.759</td>
<td>237.212</td>
<td>266.507</td>
<td>112.35</td>
</tr>
<tr>
<td>Fortified Wine</td>
<td>0.523</td>
<td>0.531</td>
<td>0.426</td>
<td>80.23</td>
</tr>
<tr>
<td>Sparkling Wine</td>
<td>1.401</td>
<td>1.630</td>
<td>1.566</td>
<td>96.07</td>
</tr>
<tr>
<td>Total</td>
<td>217.683</td>
<td>239.373</td>
<td>268.499</td>
<td>112.17</td>
</tr>
</tbody>
</table>

Through the New Agricultural Products Marketing Act 1997, the South African government is clearing the way for the transformation of its wine industry to a free market status [Nkosi, 1999:1]. The subsidies are gone, and the absence of a nurturing environment will be tough for growers who are new in the business. But the ensuing competitive edge that the industry attains may ensure a comfortable position in the global marketplace [Nkosi, 1999:2].

Ironically, the removal of government controls on the domestic trade has been accompanied by the protectionist 25 percent tariff placed on wine imports, which neutralises some of the country’s free market aspirations [Nkosi, 1999:2].

The proposals for a formal representative structure for the South African wine industry were unanimously accepted at a meeting of all stakeholders in the South African wine industry – probably the widest possible representation ever rallied to discuss industry business [Du Plessis, 2003:1]. This was more than business, it was a meeting to set the course of the wine industry irrevocably on a new path of co-operation and change that will affect each and everyone connected with it.

This has been the most important decision in the history of the industry since the formation of KWV in 1918 [Du Plessis, 2003:1]. Wines of South Africa (WOSA) is a fully inclusive body, representing all South African producers of wine who export their products.

WOSA’s business scope and mandate includes:

- enhancing the image and reputation of SA wines in key international markets;
- assisting with the development of new export markets;
- assisting with capacity building among exporters;
- facilitating the development of SA wine tourism;
• acting as spokesperson/lobbyist between producers and government, and producers and tourism authorities.

1.4 THE GLOBAL WINE MARKET

Canadean [2002], a beverage industry analyst, states that the wine industry, which has remained immune from many of the pressures of the modern era for a long time, is now undergoing radical changes. These changes are leading wine producers to seek increased margins from smaller volumes of high quality wines. At the same time the product is becoming increasingly commodified due to the growing importance of supermarkets as primary retail outlets. These developments are inextricably linked with the rise of branded wines from the New World and the decline of the regional wines from the Old World [The World Market for Wine 2002, 2002: 1]. While New World markets are expanding at around twenty percent a year and the Old World sales are static, the market share of branded wines is growing steadily.

The South African wine category, the fastest growing in the UK retail sector in 2002, is to receive a major boost this year, with £1 million to be spent on a generic campaign supported by all major chains – the first such initiative run by WOSA [Retail Campaign for SA Wines in UK, 2003: 15].

South Africa moved up from sixth to fourth position in the UK retail wine sector for 2002, increasing its volume share to nine percent. In doing so, the country achieved a twenty-six percent growth on 2001; outstripping Australia’s twenty-three. South Africa’s sales volumes for 2003 are expected to be twenty percent above last year. By 2005 South African wine producers aim to achieve a thirteen percent value share of the UK market that will be higher than its volume share. Currently value share is marginally lower than volume share, which last year reached nine percent of the UK market [Retail Campaign for SA Wines in UK, 2003: 15]. South African retail selling prices (RSP’s) have increased in the UK by 2.8 percent from
2004 to 2005. This growth is being led by the quality, boutique category [Davis, 2005].

On a global scale South Africa ranks ninth in terms of production and area used for production, after Australia.

Looking at the future, Canadean [2002] believes that the key for growth will remain branding of New or Old World wines [The World Market for Wine 2002, 2002: 1]. At the moment, Spain and South Africa are the two fastest growing wine exporting countries to the USA. It is a difficult market where people are spoilt for choice. The market will remain open as long as South Africa delivers continued quality according to Peter Morales a marketer from the US [Krige, 2003: 37].

South Africa currently ranks ninth on the list of importing countries to the USA, behind Portugal, Germany and Argentina even though circumstances in the US have become a challenge for any importer. Generic marketing is making its contribution and WOSA with its limited resources is impacting on the international markets [Krige, 2003:37].

1.5 THE SA WINE INDUSTRY AND ITS STRUCTURE

In terms of world wine production, South Africa ranked ninth behind Portugal and ahead of Chile [Platter, 2005; SA Wine Directory, 2003]. The 647 million litres it produces accounts for 3.1 percent of the total world production.

In 2003, there were 4 435 primary wine producers and 505 cellars crushing grapes, with 66 co-operatives, 93 officially recognised estates, 330 private cellars and 16 producing wholesalers [Platter, 2005; SA Wine Directory, 2004].
1.6 ESTATE WINERIES

The estate concept is crucial to the Wine of Origin scheme in South Africa and to the promotion of the unique position of estate wine as an expression of site. The Cape Estate Wine Producers’ Association (CEWPA) is the body that looks after this important sector of the industry and promotes the interests of estate producers.

Changes have been made to the original notion of the traditional estate with regard to the Wine of Origin Scheme. They were originally the smallest category of the WO system, denoted in theory as single, continuous pieces of land, within whose confines wines were grown, vinified and bottled. International fixation with single vineyard and terroir specific wines eroded the estate image and thus newly introduced reforms to focus on estate wines rather than the traditional estates were introduced. These must be produced in contiguous vineyards, farmed as a single unit and equipped with facilities that enable all processes up until final verification [Platter, 2005].

1.7 FAMILY ESTATE WINERIES

Of the 93 wineries registered for estate production, 43 are family wineries. These family wineries vary in the family stage of ownership. The majority of them are first generation owned. Official South African statistics show that there has been an annual increase in primary wine producers and wine cellars crushing grapes, which includes estates, since the dissolving of the KWV and with new areas being opened up for wine production.

1.8 RESEARCH METHODOLOGY AND OBJECTIVE

The research method for this study is based on exploratory research. The chosen methodology is the case study method as compared to other methods. ‘The strength of the case study is its ability to examine, in depth, a
case within its real life context’ [Yin, 2003]. The point of departure will be the findings of existing research and models from family business and strategic entrepreneurship literature, from which multi-case study research combined with a questionnaire pertinent to the study can be developed in order to achieve the following research objective.

To develop a strategic entrepreneurial model to promote sustainable behaviour of family businesses in the South African estate wine industry.

The initial step was to undertake a comprehensive literature study in the following fields:

- The world of wine;
- Family business;
- Strategic entrepreneurship.

This entailed the use of various library and electronic library facilities as well as extensive use of the Internet to provide information on the fields individually and as an integrated field of study, both nationally and internationally. The literature study revealed no in-depth studies or research available on the integration of wine, family business and strategic entrepreneurship.

Relevant literature for the study includes the following:

I. Books and articles on the world of wine; examples being:


II. Books and articles on family businesses; examples being:


III. Books and articles on Strategy, Entrepreneurship and Strategic Entrepreneurship; examples being:


Estate family wineries, which have succeeded into the third generation or beyond have been selected for the multi-case study research. The motivation for choosing this research sample is to identify best practices, due to their survival in both the family business area, as well as the strategic entrepreneurship field, to provide a research base for the development of a model in terms of the research outcome.
The following sub problems must be solved in order to solve the main research problem:

1. The identification of a strategic entrepreneurial model for the wine industry;
2. The evaluation of a selected family owned estate wineries against this model;
3. Providing guidelines to improve sustainable strategic entrepreneurial behaviour for family owned estate wineries.

The research methodology will be discussed in detail in Chapter Five.

1.9 SIGNIFICANCE

Research in this field in South Africa creates a base for comparative research with the rest of the world, where most of the family business research has been conducted.

Significance of this specific estate winery based research will be to provide a base of commonality to invite further research in this field internationally and nationally.

The significance of the research study is to provide a model to promote the continuance of the family estate winery in South Africa from a strategic entrepreneurial point of view.

Research in family business is still a relatively unknown field to South Africa. This study can help to create visibility around this important discipline.
1.10 ASSUMPTIONS

It is assumed that universal entrepreneurial practices, which apply to family businesses in general, will apply to family-owned estate wineries.

1.11 OUTLINE OF THE STUDY

The thesis was planned to include the following chapters:

**Chapter 1** serves as a general introduction and states the background of the study, the problem motivating the study, the purpose of the study, the significance of the research, the study methodology and the study outline.

**Chapter 2** provides an overview of the world of wine, starting with a definition of wine, followed by its origin and history. The history of the South African wine industry is discussed in more detail. The difference between old and new world wines is highlighted. The importance of the Global wine market as well as specific wine markets and wine tourism, International wine trends and their importance on the wine industry are highlighted, as well as political and legal restrictions. The importance of the small vineyard in the world of multi national players is defined. Strategic issues facing the wine industry are highlighted with reference to the different wine producing countries in the world. Thereafter, specifics with regard to the importance of quality wine production are highlighted and the importance for this sector in terms of world consumption trends. Competitive advantage through strategy is defined. The chapter ends with the South African wine industry being discussed.

**Chapter 3** introduces family business and discusses areas of importance, which are idiosyncratic to family business. Family business definitions are identified from the literature and a definition for the purposes of this study is formulated. A literature review of previous studies pertaining to the unique characteristics of family businesses is identified with emphasis being placed
on the different goals of the two systems. Family businesses are further discussed under the headings of governance, conflict, life cycles and succession.

**Chapter 4** begins with an overview of the strategic entrepreneurship interface. Strategic planning for family businesses is discussed, which is followed by the importance of strategic planning and then entrepreneurship, which culminates in strategic entrepreneurship. Family business strategy and models for family business strategic planning are highlighted, which is followed by the importance of entrepreneurship for family businesses, which logically culminates in strategic entrepreneurship for family businesses.

**Chapter 5** develops a model for the identification and integration of key drivers related to strategic entrepreneurship factors, family business factors and the wine industry factors.

**Chapter 6** discusses the research approach adopted for the empirical study with evidence to support the methodology chosen.

**Chapter 7** discusses the research design as well as a profile of the family estate wineries selected for the research.

**Chapter 8** discusses the findings from literature and testing of the entrepreneurial model.

**Chapter 9** concludes the study with recommendations.
1.12 CONCLUSION

Literary review of the following topics: family business, entrepreneurial management models, succession planning, strategic planning based on governance and the integration of family and business systems, will assist in the testing of a model to guide, measure, assess and integrate the family and business aspects to create a synergistic management process and promote growth and survival in this selected industry.
CHAPTER TWO

AN OVERVIEW OF THE WORLD OF WINE

"...wine maketh glad the heart of man...”
Psalm 104:15

2.1 INTRODUCTION


The purpose of Chapter two is to provide an overview of the history of wine with special reference to the history of wine in South Africa. The economic importance of the global wine market is discussed with reference to dominant markets, international wine market trends as well as legal factors influencing the production of wine in South Africa. Strategies for the future of wine are also discussed. An overview of the history of wine as well as its economic importance and the strategic intent of particular wine countries, including South Africa, as well the environmental factors, laws and restrictions governing the South African wine industry will define a meaningful base from which the objective of this study can be researched.

2.2 WINE DEFINED

For the purpose of this research, wine as defined by the Oxford Companion to Wine [1994] will be used, as this rendition clarifies the difference between the Old and New World Wine definitions.

Europe and thus the Old World Wine producers define wine as ‘the alcoholic beverage obtained from the fermentation of the juice of freshly gathered grapes, the fermentation taking place in the district of origin according to local tradition and practice. This is to distinguish 'proper wine’ from alcoholic
drinks made from grape concentrate. These would be referred to as 'made wine'. New World Wine producers define wine very similarly to the Old World producers, except that the last phrase is omitted and wine can be made from a mixture of grapes grown many hundreds of miles apart' [Oxford Companion to Wine, 1994]. The wine industry in the South African context is much wider than this definition. It encompasses drinkwine (natural, fortified and sparkling), rebate wine, distilling wine, brandy and other spirits distilled from distilling wine and grape juice and grape concentrate for use in drinkwine and non-alcoholic products [SAWIS, 2004].

However, the focus of this research is the wine sector as by the definition given above and defined by the Old World producers.

2.2.1 History of wine

'Throughout time, wine has had a special influence on Western culture. From its earliest development, wine has had a place in our customs, diets and social gatherings [History of Wine: 2003].

The history of wine dates back to 8000 years BC in Ancient Persia. Fossil vines, 60 million years old, are the earliest scientific evidence of grapes [Phillips, 2001]. Wine is inextricably linked to the history of man. The earliest written account of viniculture is in the Old Testament of the Bible, which tells of Noah planting a vineyard and making wine [Genesis 9:20]. From Persia, it spread to Assyria, Babylon and Egypt. The Phoenicians, seafarers from Lebanon, introduced the vine to the Mediterranean. By the year 2000 BC, the Greeks, the Cretans and the Romans had begun to make wine as well. Wherever the Greeks and the Romans conquered, the culture and tradition of wine went with them and thus viniculture spread to Germany, France, England and the Iberian coast. Wine came to Europe with the spread of Greek civilisation. Thucydides (1500BC), a Greek Historian, quotes on the impact wine had on civilisation: 'The people of the
Mediterranean began to emerge from barbarism when they learnt to cultivate the olive and the vine'. [CWA, 1999; WOSA, 2003; Johnson & Robinson, 2001].

However the foundation and the strength of viticulture in Western Europe are primarily due to the influence of the Romans, around the 8th Century BC. The Romans classified varieties of grapes, observed ripening characteristics, diseases and soil preferences, mastered pruning and increased yields through irrigation and fertilization [La Mar, 2003; Phillips, 2001].

The collapse of the Roman Empire and the advent of the Dark Ages in Europe, saw winemaking being kept alive only in the monasteries but with the spread of Christianity, wine making spread once more.

During the 12th Century, the export of wine became an important part of European trading from the Mediterranean to North Europe.

The 16th Century saw the world opening up as explorers navigated the globe from Spain and Portugal to the Americas and the East. As wine was regarded as an indispensable part of the daily diet, casks of wine and brandy were transported with them on their travels. The Europeans planted vines wherever they would grow in their overseas territories and thus the beginning of the New World wine producing countries started [CWA, 1999; Johnson & Robinson, 2001]. Wine writers Darryl Roberts [1996], Jancis Robinson [1994] and Tom Stevenson [1997] agree with the technical definition of New World wines as being 'wines produced in regions established by colonies of European exploration, which began with some of the longer voyages of the 15th Century'. In other words, New World wines are all wines produced in regions other than Europe and the Mediterranean countries. The most prominent and productive New World wine producing countries are the United States, Canada, South America, Australia, New Zealand and South Africa.
2.3 HISTORY OF THE SOUTH AFRICAN WINE INDUSTRY

The South African Wine Industry is more than 300 years old. It began in 1656 when Jan van Riebeeck, the first commander of the Cape Colony, planted vines at the foot of Table Mountain. Van Riebeeck established a settlement to provide provisions such as water, produce and wine for the long voyages of the Dutch East India Company on their way to the East Indies. In 1658, the first large-scale farm was laid out on 'Wijnbergen', which was later renamed 'Bosheuwel'. In 1659, Jan van Riebeeck's journal reports: 'Today, praise be to God, wine was made for the first time from Cape grapes' [Cape Wine Academy, 1974; WOSA, 2003].

Governor Simon van der Stel established wine farming in Constantia in 1685 and in 1688 this young wine industry was given a boost with the arrival of the French Huguenots who had a culture of wine. This expanded the grape growing area of the Cape beyond the Peninsula to the areas of Stellenbosch and Franschoek. Wine writers and historians [Hands & Hughes; 1997; Du Plessis; 2002] agree that historical events have shaped the South African industry.

The most notable of these are the following:

In 1788 the Cloete family of Constantia produced natural sweet wines that became world famous and were enjoyed amongst nobility in Europe. 1886 saw the attack on the vineyards of Phylloxera, which together with market forces devastated the wine industry and forced a drop in prices and the disposal of millions of litres of unsaleable wine [Hands & Hughes, 1997].

This resulted in the grafting of all South African vines onto Phylloxera resistant American rootstock rather than the uncontrolled planting of ungrafted vines. This also brought about a plan by Charles Kohler to found the KWV, which brought an amount of stability to the industry as it ensured secure income for producers. This involved all farmers selling through cooperatives. The effect of the KWV on the industry has been very long
lasting. The KWV was formed in 1918 and its purpose was 'to so direct, control and regulate the sale and disposal of the produce of its members, in so far as it is the products of the vine, as to secure to them a continuously adequate return for such products of the vine' [Cape Wine Academy, 1999]. The KWV consisted of 5000 grape growers, with a board of twelve directors and four co-opted specialists. Its role of stabilising the industry was empowered by the following:

- Annually proposing floor prices for primary producers;
- Applying strict production control: 1957 saw the introduction of the quota system limiting the number of vines a farmer could plant. For 15 years, incoming vines were impounded;
- Receiving any possible wine production in excess of the domestic producers' needs for good wine, brandy and grape concentrate, to be processed in a pooling system for distilling wine, to prevent the dumping of wine surpluses on the South African market;
- Improving the economic position of producers, by fixing minimum producer prices. The government of the day supported the KWV and in 1940 the Wine and Spirit Control Act no. 23 empowered the KWV to set minimum grape and wine prices and decreed that wine could only be purchased with the organisation's permission;
- Offering wide ranging specialised services to its members, consumers, various organisations and the authorities with regard to manpower practices, viticulture and oenology, technical, financial and legal matters and responsible wine enjoyment [Cape Wine Academy, 1999; SA Wine Directory, 2003].

The KWV played an integral role in the development of the export market for South African products of the vine.

In 1925, Professor Perold of Stellenbosch University successfully crossed the Pinot Noir and Hermitage grapes, creating the first South African grape variety - Pinotage.
1992 saw vast political changes in South Africa, which eventually led to majority rule and the lifting of trade sanctions, which allowed the export of South African wine. 1992 also saw the collapse of the quota system in an effort to encourage a free market. Prices are now set by market demand and vines are planted anywhere. In 1996, the KWV was transformed from a co-operative structure into a group of companies and with this, the minimum pricing for the purchasing of grapes was abolished [Hands & Hughes, 1999; Cape Wine Academy, 1999].

James Molesworth [2003] comments that the South African wine industry has been given a second chance: 'The end of South Africa's era of economic sanctions opened the door for the country's longstanding monopolistic wine industry to show its wares'.

With this 342-year history, the industry is developed, modern and technologically sophisticated. Generally the level of viticultural and oenological practices and research are equal to any wine producing nation; however, statistics and facts may vary in degree depending on the organisation presenting them or the date of the source material from which they are quoted [Murchie & Murchie, 1998].

### 2.4 THE WORLD OF WINE

The global wine market presently stands at 2.45 billion cases indicated in millions of litres in Figure 2.1 [Euromonitor, 2003]. This translates to a turnover in the retail wine market of US$101.5 billion and US$170.1 for global sales of all sectors as indicated in Figure 2.2 [Euromonitor, 2003]. Volume figures [Figure 2.1] show an increase from 1999 to 2001, with the increase from 2001 to 2002 not being as marked, however the value trend over the same period shows an initial decline from 1999 to 2000, but an increase to 2002, indicating an increase in demand to quality wines.
Figure 2.1  Global Sales of Wine 1997-2002: Volume Trends

Source: Euromonitor [2003 : 21]

Figure 2.2  Global Sales of Wine 1997-2002: Value Trends

Source: Euromonitor [2003: 21]
Just less than 8 million hectares of the world's surface were planted to wine in 1998 [OIV, 1999].

It is agreed by most wine writers and researchers [Johnson & Robinson, 2001; Murchie & Murchie, 1998; Stevenson, 1997] that collecting global wine statistics has become an even lengthier process now that so many countries have become wine producers and vine growers and especially because not all vinegrowers co-operate with statisticians. 'Steps are being taken to bring wine industry statistics closer to that ephemeral goal of accurately portraying reality. The process is hindered by many factors, not the least of which is the lack of governmental resources in many countries for conducting proper inventories of acreage and production' [Winter, 2000].

The global wine market has shown volume growth driven by a number of factors.

**Figure 2.3  Global Per Capita Consumption of Wine 1997- 2002**

Source: Euromonitor [2003 : 24]
Firstly, the publicity surrounding the research suggesting that moderate consumption of red wine reduces the risk of certain medical conditions. This has stimulated an increase in the demand for wine as well as a change in the area planted to the red varietals. Together with the health benefits, the status connotations of the beverage and wider product availability have also contributed to volume growth. The westernisation and globalisation of the world and the lifestyle trends that go with these have resulted in increased wine consumption in emerging markets. A liquor law change in terms of wine availability in non-traditional liquor outlets like supermarkets has also assisted in growth not only in volume, but also in broadening the consumer base [Euromonitor, 2003].

Traditional wine markets, particularly in France and Italy, have shown volume decline. Lifestyle changes and the faster pace of work life have caused a move away from everyday consumption to occasional consumption. Figure 2.3 indicates the global per capita consumption of wine indicating the decline in litres per head. Comparison of Figure 2.3, which shows a decrease in per capita consumption, with Figure 2.2, which shows an increase in value trends, reinforces the increase in demand for quality wines globally.

The approach of the Old and New World wine producers in marketing their products has differed with each making a contribution to this increased volume. The tradition of quality and sophistication of the Old World wine producers has been important in traditional wine consuming nations. The New World producers have aggressively entered new markets with innovative marketing and branding strategies, which have appealed to consumers unfamiliar with wine products. This has stimulated growth in new consumer categories and new markets. This aggressive approach has created a market, which is now looking for more sophisticated products and this has led to a trend of up-trading to more expensive better products where the intrinsics and quality are of prime importance [Euromonitor, 2003; Platter, 2002]. The increasing quest for knowledge about wine has also
boosted this demand for higher value products and an increase in global sales of wine is forecast [see Figure 2.4].

**Figure 2.4  Forecast Global Volume Sales of Wine 2002 - 2007**

![Graph showing forecast global volume sales of wine from 2002 to 2007.](image)

**Source:** Euromonitor [2003:24]

This focus on wine education is supported globally and as Piero Antinori [1998] comments - 'wine is for everyone after all, and we should not treat it as if it were some thing reserved for the mystical elite. Producers such as myself must support the effort to help the uninitiated and the intimidated'.

### 2.4.1 Wine markets

Western Europe dominated the global wine market in 2002, accounting for over 51 percent of sales in both volume and value terms [Euromonitor, 2003; Eyler, 1999]. However, Western Europe has seen its volume share decline, as it registered the slowest rate of regional growth. This was caused by declining volume sales in major markets like France and Italy, in which younger consumers shifted away from traditional patterns of regular consumption. This decline has affected the area planted to vine in these countries as indicated in Figure 2.5.
## Figure 2.5  Areas Planted in Vines by Region 1996 - 1999

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Old World</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>2,871</td>
<td>2,889</td>
<td>2,894</td>
<td>2,916</td>
<td>15.0</td>
</tr>
<tr>
<td>France</td>
<td>2,271</td>
<td>2,258</td>
<td>2,256</td>
<td>2,258</td>
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<tr>
<td>Italy</td>
<td>2,266</td>
<td>2,249</td>
<td>2,221</td>
<td>2,246</td>
<td>11.6</td>
</tr>
<tr>
<td>Portugal</td>
<td>640</td>
<td>642</td>
<td>642</td>
<td>647</td>
<td>3.3</td>
</tr>
<tr>
<td>Greece</td>
<td>326</td>
<td>319</td>
<td>319</td>
<td>319</td>
<td>1.5</td>
</tr>
<tr>
<td>Others ¹</td>
<td>390</td>
<td>380</td>
<td>383</td>
<td>386</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>8,764</td>
<td>8,737</td>
<td>8,715</td>
<td>8,772</td>
<td>45.2</td>
</tr>
</tbody>
</table>

| **New World** |      |      |      |      |      |
| US          | 764  | 835  | 856  | 905  | 4.7  |
| Argentina   | 521  | 516  | 519  | 514  | 2.6  |
| Chile       | 309  | 326  | 331  | 368  | 1.9  |
| Australia   | 200  | 222  | 242  | 304  | 1.6  |
| South Africa| 262  | 267  | 274  | 284  | 1.5  |
| New Zealand | 20   | 22   | 25   | 30   | 0.2  |
| Others ²    | 8,328| 8,185| 8,177| 8,236| 42.4 |
| **TOTAL**   | 10,404| 10,373| 10,424| 10,641| 54.8 |
| **WORLD TOTAL** | 19,168| 19,110| 19,139| 19,413| 100.0 |


Notes: ¹ Includes Germany and Austria

² Includes Romania, Turkey, Iran, China, Moldova, Uzbekistan, Hungary, Ukraine, Bulgaria
North American consumers are traditionally less familiar with wine than their European counterparts. The high levels of consumer confidence have encouraged consumers to experiment with new products, particularly those with connotations of social status, such as wine. Wine has managed to establish itself in the North American consciousness to the extent that it was insulated against the slowdown of the US economy. One of the main strategic focuses of the Northern Californian wine industry is to educate consumers to maintain this trend [Sonoma University, 1998; Eyler, 1999].

Increasing demand for grape wine products, which are not traditionally produced and consumed in the region, fuelled the strong growth witnessed by Asia-Pacific. The urbanisation of developing markets, which has eroded existing consumption patterns, helped stimulate this growth. This has resulted in a highly receptive, increasingly westernised consumer base for the growing number of grape wine products available through supermarkets and hypermarkets. Similar factors also drove growth in Africa and the Middle East and Latin America [Euromonitor, 2003].

Rising consumer health-consciousness, which increasingly shaped all manner of food and beverage markets, has been a key driver of growth in developed and emerging regions alike. Wine benefitted from a consumer shift away from drinks with a higher alcohol content, such as spirits. However, the most significant factor in this respect was the considerable attention given to reports of the potential health benefits of moderate red wine consumption in both the media and industry marketing [see Figure 2.6].
In most regions, interest in the positive effects of consuming red wine together with a broader concern for health matters stimulated wine consumption.

The world’s largest wine producers, Italy and France, are also the leading consumers of wine, with each market exhibiting a strong preference for domestically produced wine [see Figure 2.7].
### Figure 2.7  Global Wine Production by Country 1995 - 2000

'000 hectolitres

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>64,641</td>
<td>57,047</td>
<td>53,561</td>
<td>52,671</td>
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<td>Italy</td>
<td>55,702</td>
<td>58,722</td>
<td>50,894</td>
<td>54,188</td>
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<td>Spain</td>
<td>20,876</td>
<td>31,000</td>
<td>33,218</td>
<td>31,175</td>
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<tr>
<td>US</td>
<td>18,668</td>
<td>18,877</td>
<td>22,000</td>
<td>20,504</td>
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<tr>
<td>Argentina</td>
<td>16,443</td>
<td>12,681</td>
<td>13,500</td>
<td>12,673</td>
</tr>
<tr>
<td>Germany</td>
<td>8,510</td>
<td>8,642</td>
<td>8,495</td>
<td>10,834</td>
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<tr>
<td>Australia</td>
<td>5,028</td>
<td>6,734</td>
<td>6,174</td>
<td>7,415</td>
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<tr>
<td>South Africa</td>
<td>8,339</td>
<td>8,739</td>
<td>8,809</td>
<td>8,156</td>
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<tr>
<td>Portugal</td>
<td>7,255</td>
<td>9,712</td>
<td>6,124</td>
<td>3,750</td>
</tr>
<tr>
<td>Romania</td>
<td>6,720</td>
<td>7,663</td>
<td>6,688</td>
<td>5,002</td>
</tr>
<tr>
<td>China</td>
<td>2,200</td>
<td>3,000</td>
<td>3,200</td>
<td>3,550</td>
</tr>
<tr>
<td>Chile</td>
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<td>3,824</td>
<td>4,549</td>
<td>5,475</td>
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<td>Greece</td>
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<td>4,109</td>
<td>3,987</td>
<td>3,826</td>
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<td>Hungary</td>
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<td>4,188</td>
<td>4,472</td>
<td>4,334</td>
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<tr>
<td>Brazil</td>
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<td>2,320</td>
<td>2,743</td>
<td>2,782</td>
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<tr>
<td>Bulgaria</td>
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<td>2,374</td>
<td>2,470</td>
<td>2,129</td>
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<td>Austria</td>
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<td>2,110</td>
<td>1,802</td>
<td>2,703</td>
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<tr>
<td>Russia</td>
<td>2,150</td>
<td>2,550</td>
<td>2,100</td>
<td>2,180</td>
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<tr>
<td>Moldavia</td>
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<td>3,598</td>
<td>3,598</td>
<td>2,194</td>
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<tr>
<td>Others</td>
<td>12,527</td>
<td>22,641</td>
<td>23,075</td>
<td>20,825</td>
</tr>
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</table>

**TOTAL** 251,576 270,531 261,459 256,366
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</tr>
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<td>57,541</td>
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<td>51,620</td>
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<td>41,692</td>
<td>99.7</td>
</tr>
<tr>
<td>US</td>
<td>19,050</td>
<td>23,300</td>
<td>24.8</td>
</tr>
<tr>
<td>Argentina</td>
<td>15,888</td>
<td>12,537</td>
<td>-23.8</td>
</tr>
<tr>
<td>Germany</td>
<td>12,123</td>
<td>9,852</td>
<td>15.8</td>
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<tr>
<td>Australia</td>
<td>8,511</td>
<td>8,064</td>
<td>60.4</td>
</tr>
<tr>
<td>South Africa</td>
<td>7,968</td>
<td>6,949</td>
<td>-16.7</td>
</tr>
<tr>
<td>Portugal</td>
<td>7,859</td>
<td>6,694</td>
<td>-7.7</td>
</tr>
<tr>
<td>Romania</td>
<td>6,054</td>
<td>5,456</td>
<td>-18.8</td>
</tr>
<tr>
<td>China</td>
<td>5,200</td>
<td>5,750</td>
<td>161.4</td>
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<tr>
<td>Chile</td>
<td>4,807</td>
<td>6,419</td>
<td>102.9</td>
</tr>
<tr>
<td>Greece</td>
<td>3,680</td>
<td>3,558</td>
<td>-7.4</td>
</tr>
<tr>
<td>Hungary</td>
<td>3,339</td>
<td>3,000</td>
<td>-8.8</td>
</tr>
<tr>
<td>Brazil</td>
<td>3,190</td>
<td>3,704</td>
<td>18.4</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>2,026</td>
<td>2,099</td>
<td>-20.5</td>
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<tr>
<td>Austria</td>
<td>2,803</td>
<td>2,338</td>
<td>4.9</td>
</tr>
<tr>
<td>Russia</td>
<td>2,903</td>
<td>2,903</td>
<td>35.0</td>
</tr>
<tr>
<td>Moldavia</td>
<td>1,700</td>
<td>1,332</td>
<td>-68.5</td>
</tr>
<tr>
<td>Others</td>
<td>19,458</td>
<td>21,084</td>
<td>68.3</td>
</tr>
</tbody>
</table>

**TOTAL** 277,171 275,892 100.0 9.7


Note: May differ from national sources
Consumers in other markets are much more open to sampling imported wine than in Italy or France or Spain. The US, Germany and Argentina, for example, produce wine on a much smaller scale than Italy or France, but appear amongst the world's leading markets in terms of consumption because of high levels of wine imports. The UK, which produces even less wine than markets such as Argentina, is particularly renowned for its consumers' willingness to experiment with products from a variety of regions and countries [Euromonitor, 2003].

Wine production and consumption in the major Asian markets of China and Japan are dominated by the non-grape sector. However, imported grape wine is accounting for an increasing share of sales in the region.

Global wine is forecast to show growth in both volume and value terms, driven by the consumer and producer trends [see Figure 2.8].

**Figure 2.8  Forecast Global Sales of Wine: % Growth 2002 - 2007**

![Graph showing forecast global sales of wine](image)

Source: Euromonitor [2003 : 31]
Changing patterns of consumption, with wine fitting increasingly easily into developing lifestyles, will be a significant driver of growth in many markets. In markets without strong traditions of regular wine consumption, manufacturers and retailers’ marketing and promotional efforts are likely to play an important part in raising consumer product awareness. Branding will become more important as manufacturers seek to attract new consumers in non-traditional markets, and younger consumers in markets where traditional patterns of consumption are being eroded. ‘The wine industry is now founded on sales and marketing. It’s a people’s business. It’s a personalised, individualised market. A person needs to find niches and products vs. more me too’ [Heck, 1998].

Value growth is expected to be boosted by a persistent trend towards up-trading, as consumers become increasingly familiar with wine and knowledgeable about different varietals.

In developing markets, improved distribution, especially through supermarkets and hypermarkets because of relaxed legislation, will stimulate growth by introducing consumers to an expanding range of products. Furthermore, the development of a relatively affluent, young, urban middle class is set to expand the core consumer base for wine in emerging several markets [Euromonitor, 2003].

The developing regions of Africa and the Middle East, Eastern Europe and Asia-Pacific are expected to lead growth in both volume and value terms. Ongoing urbanisation will be an important factor, as it creates significant concentrations of consumers for emerging large-scale retail formats, erodes traditional patterns of food and drink consumption, and leads to the expansion of wine's core consumer base, the urban middle class. Asia-Pacific is forecast to show the strongest volume growth, as grape wine establishes itself in a region without established traditions of production and consumption.
Latin America is the only region expected to show volume decline as economic difficulties persist. However, those consumers that do opt to buy wine are likely to continue to trade up to higher value products, so that the region is predicted to show value growth.

### 2.4.2 Wine Tourism

One result of increasing consumer interest and knowledge of wine has been growth in the number of people visiting wineries. This is a reflection on the increased interest in wine and travel generally, but also because wine growing areas are particularly attractive and offer a lot of associated benefits like good restaurants and a relaxed lifestyle [Oxford Companion to Wine, 1994]. Vineyards in France, Spain and Italy have, for a long time, offered tourists the opportunity to see how wine is produced, as well as sample and purchase it directly. The New World producers have shown a growing interest in exploiting their distinctive branding and marketing strategies to develop this aspect of their business [Phillips, 2001; Lockshin and Hall, 2000].

In Australia, for example, wine tourism has become big business in the country's premier wine-producing regions, including the two largest, the Barossa and Clare Valleys in South Australia, with wineries promoting themselves strongly as tourist destinations. South Africa and Napa Valley have also followed this trend, with tourism contributing substantially to employment and the marketing and consumption of wine.

Wine tourism is partly designed as an attempt to encourage consumers to increase their consumption, as well as their knowledge of wine, while at the same time encouraging them to propagate knowledge of the wine(s) in question to their friends and family. It is an indirect form of marketing. Wine tourism is seen as a differentiator and a way of meeting your consumer face to face and thus building a relationship [Lockshin et al, 2000]. Tasting the wine at source can overcome the apprehension of consumers who do not know the quality of lesser-known wineries, many of which have also begun
tours around the vineyards and offer restaurant facilities. Cellar door sales are particularly important to smaller wineries, which do not receive the same level of support from retailers as their larger competitors. Furthermore, the absence of transport costs and middlemen between producer and consumer provides them with higher profit margins.

The ability of wineries to maintain contact with tourists once they have left has been greatly enhanced by new media, notably the Internet. As a result, wine producers are able to target interested consumers directly, with a view to creating repeat business [Johnson & Robinson, 2001; Euromonitor, 2003].

2.4.3 **International wine trends**

2.4.3.1 **Health**

The growing consumer health consciousness is predicted to continue to be a significant factor in the development of wine sales in all markets. The intrinsic components of wine comply with the changing patterns of consumption in alignment with health consciousness.

2.4.3.2 **Increasingly regular consumption**

Wine goes well with life. Consumers are increasingly purchasing wine to drink with meals. Eating out has become more commonplace and as a result wine sales have increased in the on-trade sector. The number of women in the workplace and the growth of single households have raised the away-from-home activity. Internationally, consumers have grown used to having wine, particularly still red and white wine, as a commonplace consumable in their lives. Data recently released by Canadean [2002] reveals that consumer attitudes to wine consumption are changing in the USA as well as globally. The health benefits of wine are now beginning to predominate in the mind of the consumer as it is agreed that the moderate consumption of red wine is beneficial to health [Good Taste, No 178, August 2005].
2.4.3.3 Trading up

As consumers become more familiar and knowledgeable about wine products, the trend towards up-trading which became increasingly prominent is predicted to provide onward value growth. In Australia, demand for premium quality red wines outstrips supply. South Africa is replanting vineyards to cope with the change to red wine consumption. Manufacturers and retailers are continuing to invest significant resources in marketing and promotional activity and these will also raise consumer product awareness [Euromonitor, 2003; Australian Wine Strategy, 2005].

2.4.3.4 Demographics

In developing markets, the ongoing development of an urban middle class is expected to expand the consumer base for wine products. The growing importance of Western products and lifestyles is facilitating the growth of the consumption of wine in these markets [Euromonitor, 2003].

2.4.3.5 WTO

Entry to the WTO is set to exert a significant influence on the development of the Chinese market, leading to a reduction in prices of imported wine, though such products are still expected to compete mainly in higher value segments. Access to the WTO will also have an impact on wine distribution, as it will enable an increasing number of distributors to gain a licence to distribute wine in China, which will allow deeper penetration of imports to inland regions [Euromonitor, 2003].

2.4.3.6 Growth in emerging markets

Several of the emerging markets are forecast to register the fastest growth because of their current low levels of per capita consumption. While such consumption levels offer manufacturers significant opportunities to expand the consumer base, it must be remembered that they are largely the result of
the low levels of disposable income, which characterise emerging markets. In many developing markets, wine consumption is limited to relatively affluent urban consumers, since the majority of the population exists on much lower incomes in rural regions [WOSA, 2003; Euromonitor, 2003].

However, the ongoing process of urbanisation and a rise in consumer purchasing power is set to expand the number of wine consumers.

Moreover, the growing numbers of young, middle class, urban consumers in emerging markets are particularly receptive to the influence of Western lifestyles, where on-trade drinking is commonplace and red wine is a drink of choice in these outlets [Euromonitor, 2003]. Increasing numbers of students are returning from overseas study in Western countries like the US, the UK and Australia where they have developed a strong affection for drinking grape wine and foreign spirits such as vodka and whisky [Phillips, 2001].

The urbanisation of developing markets also spurred the improvement of distribution infrastructures, which helped to introduce consumers to an expanding range of wines.

2.4.3.7 Raising consumer awareness

Manufacturers and distributors are expected to generate increasing awareness of the growing number of products available to consumers by investing significant resources in marketing and promotional activity [Australian Wine Strategy, 2005]. This will be of particular significance in markets without a strong tradition of wine consumption. Consumer education will be important in developing more regular wine consumption and is expected to contribute to a growing interest in grape wine in several emerging markets.
2.4.3.8 Tourism

Tourism is predicted to be a significant asset to growing wine sales, especially through on-trade channels. Tourism will also have an effect as wine drinkers visit non-wine countries. This will create a demand for the beverage. The increase in South African tourism has contributed substantially to growth in wine sales [WOSA, 2003].

2.4.4 New World wine growth

New World wine producers showed the strongest growth in terms of export volume sales. Australia performed particularly well, displaying growth of over 120 percent over the 1996 - 2000 period, and reaching new heights in December 2002, when its exports topped 50 million litres a month for the first time [Euromonitor, 2003]. The strong performance of New World producers was driven by the fact that they offer good quality wine at relatively low prices and by their marketing and branding strategies. New World producers put themselves at a significant advantage when entering markets without established traditions of wine consumption, as their brand-oriented strategies appeal to consumers with little specific knowledge of wine [Euromonitor, 2003; Sonoma University, 1998]. The growing consumer demand for wine from New World wine producing countries also helped South Africa and Argentina to develop significant exports. The relatively weak currencies of these markets at the time of writing serves to magnify the affordability factor of their exports, which should act as another factor for growth [Australian Wine Strategy, 2005].

The UK imports showed volume growth of nearly 11 percent between 1996 and 2000, whilst in the US, imports increased by above 28 percent over the same period. High income per capita in both the UK and USA, combined with a consumer culture accustomed to sampling wines from around the world, has led to this strong growth in both markets [Moulton, 1997]. Furthermore, drinking trends in both countries show consumers are increasing their familiarity with wine in both on-trade and off-trade outlets,
with a consequent shift away from spirits and beer [Icon Group International, 2003]. Female consumers play a significant part in this trend, as do the older segment of both the UK and USA populations [Euromonitor, 2003].

2.4.5 Growth in plantings

Seven Western European "Old World" countries – Spain, France, Italy, Portugal, Greece, Germany and Austria – accounted for 45 percent of the total global area planted with vineyards in 1999 [Icon Group International, 2003]. The opportunity to expand vineyards or establish new ones is, however, limited in this region [Euromonitor, 2003].

In Spain, there is an ongoing trend by producers to improve facilities and invest in wines from lesser-known Denominacion de Origen [controlled quality wine region]. This strategy is aimed at increasing quality and variety, with a view to stimulating demand, which showed signs of stagnation during the early part of the 1990’s. It is also a response to EU legislation that prohibits the planting of new vineyards unless they are replacements for old ones [Euromonitor, 2003]. Thus producers had to resort to investing in the improvement of existing vineyards in order to stimulate growth. Domestic producers were also given an incentive to improve and develop their products in order to compete more effectively and gain share in export markets.

The expansion of wine vineyards in New World countries such as the US, Australia, Chile and South Africa exemplifies the spread of vineyards from their traditional base in Western Europe to new continents. The application of modern production techniques, aided by innovative new technology, has enabled other regions – notably Australasia – to rapidly expand the number of vineyards and produce increased quantities of high quality wine [Johnson & Robinson, 2001; Chadwick, 2001; Moulton, 1997].
2.4.6 Restrictions: Political and Legal

2.4.6.1 EU Legislation

The EU has certain policies with respect to trade with non-member countries [Euromonitor, 2003; Nkosi, 1999]. As a result of the need to improve and defend the positions of its own members, the EU created measures to limit, and sometimes impede, imports from certain countries, of specific wines. Foreign governments that intend to import wine into the EU must provide full documentation regarding the origin and nature of the products in question, including the grape varieties used.

New, stricter legislation governing the description, designation, presentation and protection of certain wine sector products was implemented in the EU in January 2003. The regulation sets out the information that must be presented on labels, restricts the use of certain bottle types and introduces a system to protect ‘traditional terms’ used to describe a wine, i.e. terms to designate the production or ageing method or the quality, colour, type of place, or a particular event linked to the history of the wine concerned. Argentina, Australia, New Zealand and the US are at the forefront of opposition to this legislation, which may eventually end in the WTO's dispute settlement system [Euromonitor, 2003].

Under the current legislation, New World producers face the threat of having imports to the EU blocked unless they can prove that the wines conform with the European rules relating to their avowed method of production. The EU argues that the measures are designed to protect consumers from deception, but New World producers protest that the rules are clearly overly burdensome and constitute trade barriers, as well as a barrier to innovation in the industry, as the EU may not recognise new production methods [WOSA, 2003; Euromonitor, 2003].
2.4.6.2 Wine production

Production of wines in the EU is categorised by a system, which classifies wine-growing regions according to climatic conditions. There are three zones: A, B and C, from north to south. Different agricultural and wine production practices are established for each zone. For instance, in the far south, irrigation may be used in extremely dry conditions. However, no irrigation is allowed in Zone A, where de-acidification of the must is permitted instead [Stevenson, 1997; Johnson & Robinson, 2001].

Addition of sugar, or chaptalisation, is another very important issue. In cold climates, producers may add cane sugar to their must in order to increase the final alcoholic strength of the wine. This is not permissible in Zone C, where much hotter conditions normally provide wine makers with fully ripened grape [Stevenson, 1997; Johnson & Robinson, 2001].

Trading in wines is likewise subject to restrictions. Apart from the levels of taxation imposed by any EU member, which include duties and VAT, labelling is strictly controlled and must comply with rules set out by the EU. Broadly speaking, the front label of a bottle of wine must state the country of origin, the alcoholic strength by volume, the capacity of the bottle, the region of origin or grape variety/blend used and the quality of the wine. If a single grape variety is stated on the label, the wine contained in the bottle must be at least 85 percent from that varietal. In the case of a blend, the grape variety stated first is the dominant one.

2.4.6.3 Drinking Age Restrictions

Most countries have age restrictions for drinking alcoholic drinks, in order to deny children access to alcohol. Underage drinking is still common, however, it is becoming more policed. The drinking age is typically 18 years in most markets, although there are exceptions. Countries, which are less tolerant to alcohol, have age limits of 21 years. This is evident in some states in the United States and in Muslim countries [Euromonitor, 2003].
2.4.6.4 Advertising Restrictions

Advertising limitations exist in many countries to discourage underage drinking. For example, the EU adopted a recommendation in 2001 to prevent liquor companies from making alcoholic drinks which were specifically targeted to under 18’s. In South Africa, the Association for Responsible Alcohol use ensures responsible marketing and promotional activities [SA Wine Industry Directory, 2005].

2.4.6.5 Drink-driving restrictions

Alcohol remains a major cause of accidents, even with laws clearly specifying the legal amount of alcohol in the blood permitted in order to drive. There is a growing intolerance to drunk driving, with strong support from pressure groups [Euromonitor, 2003; SA Wine Industry Directory, 2005].

2.4.7 Alcohol’s share of the beverage market

Within the context of the wider drinks industry, alcoholic drinks are clearly in a weakening position. In 2002, they accounted for only 17.3 percent of total throat by volume, although clearly their high price indicates that they are much more significant in value terms. This represents a decline on 1997, when they took a share of 18.4 percent, a decline, which is set to continue. By 2007, alcoholic drinks share of throat is expected to stand at only 16.7 percent [Euromonitor, 2003].

This is partly due to increased concern about health issues. In many markets, especially developed markets, consumers are opting to cut back on heavy drinking and switch to soft drinks instead. The steady upward progression of soft drinks is evidence of this. Alcohol’s share of throat is forecast to be 16.7 percent in 2007 [Euromonitor, 2003]. Nevertheless, in actual terms, alcoholic drinks will continue to register positive volume
growth, led by improving disposable income in emerging markets and a shift towards premium drinks, such as wines, premium beers and Fruit Alcoholic Beverages, in developed markets [Euromonitor, 2003; Australian Wine Strategy, 2005; Moulton, 1997].

2.4.8 The importance of the small vineyard

The historical roots of the global wine industry in centuries-old traditions of localised production have resulted in a highly fragmented market, with small domestic producers dominating sales in significant markets such as Italy, France and Spain. However, the market has become increasingly consolidated as major multinational players have been attracted by wine’s high profitability and its increasing popularity, particularly in markets without long-established patterns of production and consumption [Euromonitor, 2003; Moulton, 1997; Eylers, 1998].

Large multinational companies are able to employ their considerable resources to exploit economies of scale in production, marketing and distribution. Moreover, as the wine market becomes truly global, expanding beyond traditional Western European markets; tradition is waning in significance, with growth being generated by the more modern marketing strategies of New World producers and multinational companies [Icon Group International, 2003; Moulton, 1997; Euromonitor, 2003; Lockshin et al., 2000].

However, the significance of smaller, specialist companies remains strong due both to long-standing traditions of consumption and the importance of consumer perceptions of status and luxury in the market [Mondavi, 1998; Perdue, 1999]. Many consumers are attracted to the idea of handcrafted products, made according to traditional methods, and perceptions of authenticity and quality underpin the continued demand for wine from smaller producers, particularly in the premium segment [Perdue, 1999; Australian Wine Strategy, 2005; SA Wine Plan, Vision 2020]. The challenge for the major players is to acquire and manage such small producers without
diminishing their images of exclusivity. There is also a challenge for the smaller vineyard to focus on this niche market, remain privately owned and exclusive.

2.5 GLOBAL WINE STRATEGY

2.5.1 The current global wine industry

The global wine industry has undergone tremendous change over the past decade with predicted shifts sure to affect more change in the future [Moulton, 1997; Gastin and Schwing, 2004].

It is indicated by research amongst economists and sociologists that the world is on the brink of unprecedented change [Peters, 2003]. Population is predicted to increase with a shift towards the Asian and Pacific Rim [de Visscher, n.d]. Western populations are predicted to become older. Currently the most important wine markets are France, Italy, Germany, the United States, the UK, Spain and Argentina, which together accounted for 60 percent of the world total in 1995 [Moulton, 1997]. Globalisation will develop with increasing free trade, international business collaboration and strategic alliances being the main focus.

Consumers are predicted to be more vigilant with specific causes and obsessions like healthy products, a healthy lifestyle and environmental concerns about environmental causes about the production of consumer goods coming to the fore. This is supported by the Popcorn report, where one of the ten mega trends is the vigilante consumer where people will look for environmentally sound products [Popcorn, 2003; Australian Wine Strategy, 2005; Perdue, 1999; Cartiere, Dolan and Matz, 2004].

Many of these trends favour the wine industry. Although there is a strong trend away from alcoholic beverages and alcohol consumption, quality table wine occupies a unique position. Forecasters predict that wine will meet the
future consumer’s demand for individualised, customised quality products, which are natural, environmentally friendly and healthy. Quality wine is the most appropriate food accompaniment beverage, it has image and status, acknowledged health attributes and is a natural product with positive lifestyle associations. This enforces the industry’s belief that strong growth will come from the commercial and quality segments at the expense of the commodity wine beverages [Australian Wine Strategy, 2005; Cartiere et al, 2004]. Success will come from being part of this restructure, which is being led by the EU. All over the world, wineries are improving their wine growing to the benefit of the consumer. Not only is the appellation, the vintner and the vintage important, but the expression of the varietal as well as information on the labels [Mondavi, 1998].

One of the most significant changes will be meeting the increasing fixed costs associated with the historically capital intensive industry and increasing consolidation to achieve economies of scale and global scope via acquisition and merger of wineries [http://libweb.sonoma.edu/regional/subject/wineleaders.html;1998]. Global branding with multi-variety and multi-country sourcing has already developed, but on a micro scale, there will be an interest in quality wines with regional and sub regional identity. This global sourcing will support the widespread extension of strategic alliances and joint ventures across national boundaries.

In order for any wine producing country to capitalise on this positive trend, three main areas need to be focused on. These include physical factors, human factors and market factors. It is necessary for wine producing countries to be innovative and strategic in these areas to capitalise on the potential opportunities. One of the most controversial issues facing the wine business is the development of global wine brand. If a true global brand were to develop, it would be similar to the Nike model in which the product is designed in one area, but resources to make it are sourced globally. The focus would be on the final product rather than the origin, which is very counter to the current method of wine making. If this had to happen, the
grapes could be sourced from any location and the wine could be produced in any country that had low production costs, but a high quality level. The focus would be on consistency of taste, quality and price [Wendt, 2004; Spawton and Lockshin, 2004]. Wine has always been a local craft sold globally. A global wine would break all tradition. There is no global brand as wines are still produced and/or labelled by the country of origin. The winery that develops this concept would benefit from excellent return on investments, through the flexible sourcing of grapes and a strong brand with consistent taste could develop a global following. This would also make trading with the retailers easier as they prefer consistent global brands along the lines of Coca Cola and Nike [Bisson, Thornton and Gago, 2004].

2.5.2 The Importance of quality wines

The production of quality wines has been increasing worldwide, reaching 31 percent of global output [Moulton, 1997]. The EU is dominant in this sector, far more dominant than it is in the standard sector. The trend in the old world wine producing countries to convert vineyards to improved varieties continues and thus the percentage of quality wines produced and consumed in the world will continue as well as indicated in Table 2.1.

<table>
<thead>
<tr>
<th>Producing region</th>
<th>All wine (million hectolitres)</th>
<th>Quality wines</th>
</tr>
</thead>
<tbody>
<tr>
<td>The European Union</td>
<td>196.4</td>
<td>63.1</td>
</tr>
<tr>
<td>USA</td>
<td>15.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Other producers</td>
<td>88.5</td>
<td>24.4</td>
</tr>
<tr>
<td>All regions</td>
<td>300.5</td>
<td>92.0</td>
</tr>
</tbody>
</table>

Source: Euromonitor [2003 : 45]
The EU dominates the production of quality wine more than it dominates the production of all wines. Therefore, its management decisions concerning this sector will have important implications for competing producers and for consumers of quality wines [Eyler, 1999].

The quantity of quality wines has been increasing in the New and the Old World wine producing countries. Output within the twelve members of the EU grew from an average of 36.9 million hectolitres in 1971-75 to 57.0 million hectolitres in the period 1990-93. California showed the same trend where the area devoted to quality wine grapes increased by 54 percent and that devoted to ordinary grapes declined by 37 percent in 1993.

Maturing industries are characterised by slow growth and declining innovation, more product and process improvements, more sophisticated consumers and increasing concentration of producers [Gilinsky and Klenz, 2004]. Growth opportunities exist with a niche approach through differentiation. Quality wines with traceable origins create these niches as well as higher margins.

2.5.3 Quality wine competition

Traditional Europe ranks first, with Australia second in terms of market competitiveness, well ahead of other competitors such as California, South Africa and Chile. Traditional Europe’s dominance of the quality sector of the market in terms of image, reputation and branding makes it a world leader [Moulton, 1997].

2.5.3.1 Europe

France and Italy dominate the EU because of their size. In terms of the strategic drivers of the industry they have an advantage in that they have ample area to convert vineyards or other crops to quality wine production and an effective infrastructure to support such change [Moulton, 1997]. Research networks as well as professional advisors support the industry.
Europe also has large domestic markets, which results in economies of production and distribution. France in particular has an excellent reputation and often sets the standard against which other wines are judged [Euromonitor, 2003; Australian Wine Strategy, 2005].

Competitive disadvantages for the EU lie in relatively high labour costs, small-scale production units in many areas and regulations, which restrict innovation. However the sheer size of the EU as well as the protection of its markets and its long-term position as a net exporter, suggests that it will push the quality wines into the market and in so doing will assure market share. The emphasis will be on adjusting marketing strategies to meet market needs by balancing the emphasis on production area, grape variety and brand [Euromonitor, 2003; Moulton, 1997; Australian Wine Strategy, 2005].

Eastern Europe on the other hand has low labour and land costs, but poor infrastructure and facilities, which result in inconsistent quality. Another weakness is the lack of capital to improve the situation.

2.5.3.2 South America

Chile has increased its share of quality wines in its mix over the last 25 years. However in 1995, only 7 million of the 35 million cases produced were quality wines.

Chile has a strong export orientation and the need to increase its quality wine production is supported by a good investment climate, which is evident in its industry modernisation programme. Labour is cheap and in abundance, which together with good management and technical expertise and low production costs, positions them well as an export country. Chile needs to invest in a reputation for differentiated wines to compete in this sector [Euromonitor, 2003; Moulton, 1997; Australian Wine Strategy, 2005].
Argentina is a major wine producer but a minor player in the quality wine market. Virtually all exports are of bulk wine with insignificant quantities of quality wine. Their focus is on concentrate, must and bulk wine and is therefore not in the value added sector. Argentina has potential to increase its presence in the quality wine trade, but because of an uncertain economic environment, poor infrastructure and low levels of research support this will take time to develop [Chadwick, 2001; Euromonitor, 2003].

Brazil is a relatively newcomer and shows little evidence of growth in the quality sector.

2.5.3.3 South Africa

The relaxation of sanctions against exports has seen an increase in exports from 25 million litres in 1991 to 240 million litres in 2003 [Platter, 2005] as well as an increase in the production of quality wine. The definition of quality wines from South Africa is difficult to discern. Wine of origin is considered top quality, whereas good wine has no geographic designation, which is contrary to quality wine classifications from other countries. The early successes of New World producers California and Australia inspired South Africa, following the deregulation of the industry and the KWV [Gastin and Schwing, 2004].

South Africa has the capacity to increase its production and export of quality wines. A doubling of production would add three percent to the global supply of those wines, which would have a significant impact on world trade.

The geographic conditions in South Africa support the production of quality wines, however land availability in the coastal areas is limited. Potential is limited by the need to change the varietal mix, the availability of planting material and relatively high development costs. South Africa will benefit from an improvement in varietals quality and marketing.
An important challenge for South Africa is the economic repositioning of this sector which has since 1994 moved away from a highly regulated environment to face global competitiveness and highly skewed trade environments [SA Wine Plan, Vision 2020].

2.5.3.4 Australia

Australia has increased its output of very competitive quality wines, which have gained market share particularly in the UK and the USA. They have increased their wine production by a quarter in the last ten years, but have increased exports thirteen times [Australian Wine Strategy, 2005].

Australia has the resources for the continued expansion of quality wine production. It is extremely well supported in research and has developed the technical ability to produce a wide array of quality wines. Their viticulturists and oenologists are of the best in the world. Australia has used technical efficiency and economies of scale and lower land costs to offset high labour costs, resulting in quality wines of very good value [Euromonitor, 2003; Moulton, 1997; Australian Wine Strategy, 2005].

Australia’s proactive relationship with and attitude to the marketplace, its product depth and diversity and its commitment to distribution networks and promotion have delivered success in this quality sector.

The Australian wine industry in conjunction with the government has implemented a long-range plan that envisions growth in quality wines and an expanded share of world markets [Lockshin et al., 2000; Australian Wine Strategy, 2005].

2.5.3.5 California

California has enjoyed long-term expansion in the quality wine sector. The 1996 Wine Industry Financial survey indicated that the respondents believed
that the upswing of quality wines would increase and last [Euromonitor, 2003; Moulton, 1997].

2.5.4 Domestic Markets

The domestic market is critical to any wine producing country’s success. Developing new wine consumers in the domestic markets is an area of critical importance to long-term success. Australia’s per capita consumption is 19 litres per annum. South Africa has seen a decline in domestic wine consumption to 7.9 litres per capita per annum [SA Wine Industry Directory, 2005].

The potential for global wine marketing is large as there are many untapped markets for wine [Spawton and Lockshin, 2004]. Exporting must be based on the objective criteria of sales and growth. Countries like South Africa, New Zealand and Australia have limited domestic market consumption and this has resulted in a drive for exports. However, the drive to educate the local market must not be diluted because of the focus on exports, as local market consumption could be critical to long-term success of the industry.

2.6 COMPETITIVE ADVANTAGE

The changing consumer trends as well as the increased competitiveness of the industry indicate that there are key success factors for countries competing in the wine industry. Research by Gastin and Schwing [2004], the Australian wine industry and the Californian wine industry agree on the following: an innovative industry culture which enables responsive adaptation and evolution of resources, technology skills and institutions to meet changing consumer needs is a prerequisite for both domestic and export markets. The attention to product leadership in intensity, complexity and diversity of flavour with paying attention to the responsible use of resources is paramount to the industries future. Product differentiation to
increase industry segmentation, differentiation, positioning and protection of that position, managing value and quality while improving economies of scale and traceable origin as a source of differentiation are also important. Value adding at every price point is essential for the industry as is the expansion of the consumer base. Although there is decline in the traditional wine consuming markets, the quality sector has grown [Spawton and Lockshin, 2004].

‘Part of globalisation is not to give the public just more of the same, but to give them wines that reflect the culture of the country, reflect the soil and the unique grape types of the country’ [Mondavi, 1998].

The wine industry spend on advertising declines year on year. It tends to foster an image of snobbishness and formality that consumers find off putting [Perdue, 1999]. This view is supported by Mondavi [1998] who stated that once given all the rules of wine consumption, the consumer says ‘to hell with it - give me a beer, a scotch, a cup of coffee’. Squabbling among the majority of major wine trade industry associations and lack of industry cooperation has prevented generic marketing campaigns in most countries [Perdue, 1999; Nowak, Arnold and Wagner, 2004].

Although trends in the wine industry lean towards consolidation, with ten producers holding a 12.8 percent market share, which is very different to the rest of the beverage industry, small producers and newcomers are still important. Purchases in the off trade sectors of supermarkets and discount stores favour the large producers, the HORACA (hotel, restaurant and café) on trade sector favours the smaller boutique producer [Spawton and Lockshin, 2004].

The changing face of the wine industry precludes the necessity for strategic entrepreneurial practises to capitalise on the opportunities whilst consolidating existing competences.
2.7 THE SOUTH AFRICAN WINE INDUSTRY

The South African wine industry value was R14.6 billion in 2002 [Euromonitor, 2003; SA Wine Industry Directory, 2003].

South Africa is the world’s ninth largest wine producer and accounts for about 2.8 percent of global production. The Western Cape produces over 90 percent of South Africa’s wines. Although the balance between red and white varietals has shifted in the past decade to cater for international demand, it is still dominated by whites. White varieties account for 74 percent and reds for 26 percent [SA Wine Industry Directory, 2004; Platter, 2004].

The removal of sanctions in 1994 opened up New World markets for South African wineries, but also necessitated the removal of artificial protective measures like import tariffs and exports incentives. Removal of production quota restrictions and the ‘minimum price’ as mentioned in the history, revolutionized the industry’s structure and operation, helping to drive quality and efficiency improvements. There was also substantial investment in information technology and export infrastructure, as well as in production and distribution facilities [Euromonitor, 2003; WOSA, 2003].

The total crop amounted to 1 015 697 million litres (1 312 184 tons) (2004) with about 75 percent of it being made into wine. South Africa cultivates 110 200 hectares of land through 4 435 grape farmers whose product is processed by 505 wine cellars, comprising co-operative cellars, estates, private cellars and producing wholesalers. There are 66 co-operatives, 93 officially recognised estates, 330 private cellars and 16 producing wholesalers [Platter, 2005; SA Wine Industry Directory, 2004/2005]. The 347 434 303 vines are of the classical vinifera varieties [SA Wine Directory, 2004/2005].

There is an estimated employment of 3500 wine cellar personnel and 345 000 farm workers [SA Wine Industry Directory, 2003]. The SA per
capita wine consumption declined in 2003 to 7.9 litres. South Africa is ranked 31 in world wine drinking [Platter, 2005].

In 2001/2002 - volume growth in South African wine almost halted, with a rate of 0.5 percent being seen. Rising unit prices within the sector, especially in the historically premium areas of sparkling wine and fortified wine, have seen volume sales greatly restricted. The other major trend within the sector saw consumers continue to switch from white wine to red wine, although the former remained the dominant force within wine. Over the year, volume growth was minimal, but value growth increased at a rate of 9.7 percent. This underlines the difference between volume and value growth. This rate of advance saw the sector worth R14.6 billion in 2002 [Euromonitor: 2003; SAWIS: 2003].

2.7.1 Emerging black market

The black consumer market is recognised in South Africa as a big opportunity for wine as the group's spending power increases. The challenge lies in expanding this part of the consumer base's knowledge and appreciation of wine to include a greater variety. The education of the black consumer base lies in the hands of producers and wine education institutions. As a result, both red and white wine can be expected to benefit. The education of the black consumer base is expected to last well into the long term, given the preference for beer and spirits above and beyond wine.

The other item that will be required to continue is the hoped for economic development within the country to provide black consumers with more disposable income that they are able to afford the unit prices required to purchase wine.

The political redressing in South Africa is seeing people from previously disadvantaged communities emerge as wine farmers and winemakers. A number of farmers have also established joint ventures with their workers to give them part ownership and to transfer skills in wine management and
making. This, together with education, driven by initiatives and trusts, will also develop a wine culture amongst these communities [WOSA, 2003; SA Wine Industry Directory, 2003].

2.7.2 Governing bodies

The South African wine industry has numerous associations and organisations, which look after special interests of producers, growers and consumers. These include, amongst others, the Methode Cap Classique Producers Association, Muscadel South Africa, Pinotage Association, Shiraz Forum and Wines of South Africa. There are also organisations, which represent the whole industry and provide governance in terms of best practice. The following represent some of these [Platter, 2003, SA Wine Industry Directory, 2003].

2.7.2.1 New World Wine accord

The governments of the United States, Canada, Australia, Chile and New Zealand signed the Mutual Acceptance Agreement (MAA) on Oenological Practices on Dec 23, 2001. South Africa has also initialled the accord. The wine trade agreement is a major development that promotes greater international wine commerce and eases barriers to trade [Chadwick, 2001].

2.7.2.2 Integrated Production of Wine (IPW)

In 1988, South Africa introduced the IPW system, which is an initiative to encourage environmental responsibility among producers. This not only covers grape growing but also cellar practices. The system is backed by the Office Internationale de la Vigne et du Vin [Platter, 2003]. The system protects the environment and natural resources but also ensures sustainable profitability of grape and wine production [SA Wine Industry Directory, 2003]. The practical philosophy of IPW is that it is not a system of enforcement - participants are part of it because they want to be [WOSA, 2003].
2.7.2.3 Wine Industry Ethical Trade Association (WIETA)

This non-profit organisation was established in 2002 to improve working conditions of employees in the wine industry and the adoption of a code of good practice among growers and producers [Platter, 2003; WOSA, 2003].

2.7.2.4 South African Wine and Brandy Company (SAWB)

SAWB was established in 2002 with the aim of implementing the comprehensive Vision 2020 strategic outline to ensure the industry's global competitiveness by the year 2020 [SA Wine Industry Directory, 2003]. It involved research effected by some 1500 specialists.

The mission of SAWB is ‘to create a better life for all in the wine industry through collaboration and leadership. ‘The Wine Industry Plan entails, inter alia, to generate equitable access and participation within the wine value chain, to enable environmentally sustainable production systems and to promote socially responsible consumption of the produce of the vine [SA Wine Industry Directory, 2004/2005].’ SAWB also has a voluntary code of conduct to curb inappropriate practices in the industry. Direct stakeholders in SAWB include wine grape growers, wineries, merchants and labour. Indirect stakeholders include Government, NGO's, trade and industry, health bodies and financial, research and educational institutions [Du Plessis, 2003].

Wines of South Africa [WOSA] is the generic marketing body for the wine industry and falls under the banner of SAWB. It has an export mandate and the responsibility of promoting the visibility of South African wines overseas. Its mission is to build brand South Africa [SA Wine Industry Directory, 2005].

2.7.2.5 Association for Responsible Alcohol Use (ARA)

This Association dates back to 1981. The ARA is the representative authority and policymaking body of its members on the social aspects of
alcohol. It participates in dialogue with the public health community and initiates and supports relevant research. It supports programmes to educate children and adults on alcohol abuse and responsible alcohol usage. It ensures responsible marketing and promotional activities through effective self-regulation [SA Wine Industry Directory, 2003].

2.7.3 **Laws governing the industry**

2.7.3.1 *Wine of Origin Scheme*

1972 saw the introduction of the Wine of Origin legislature, which recognises and protects the distinct qualities of wine, which derive from certain areas, grape varietals and vintages. The Wine of Origin System provides a guarantee to the wine consumer that statements on the bottle are accurate. The Wine and Spirit Board issues an official seal, which is displayed on the bottle after certifying a wine for origin and/or vintage and/or varietal [SA Wine Industry Directory, 2003]. Areas are all described as production units and vary in size from an estate to a region. Each must be demarcated and described by legislation before it is recognised and can be used on a label. Grapes are now grown in 60 official appellations covering over 100 000 hectares [Platter, 2003].

2.7.3.2 *The Customs and Excise Act, No 91 of 1964*

In 2000, wine producers earned R 1 458.1 million, compared with state revenue of R1 286.5 million from excise duties and products of the vine [SA Wine Industry Directory, 2005].

2.7.3.3 *The Marketing of Agricultural Products Act, No 47 of 1996*

Statutory levies are collected to fund the collection and dissemination of industry information and statistics, to fund research and development and to fund generic export campaigns [SA Wine Industry Directory, 2005].
2.7.3.4 The Liquor Act, No 27 of 1989

The Liquor Act requires that all sellers of liquor have to be licensed with provincial and national liquor authorities and provides for different categories of liquor licences. This Act will soon be replaced by new national and provincial legislation [SA Wine Industry Directory, 2005].

2.7.3.5 The Liquor Products Act, No 60 of 1989

The Liquor Products Act sets requirements (production, quality, health) for and classifies almost all liquor products, with limited exceptions such as beer and sorghum beer. It contains provisions to ensure that consumers are properly informed and not misled, grants authorisation for Wine of Origin, Integrated Production and Estate Brandy schemes administered by the Wine and Spirit Board, and regulates the import and export of liquor products [SA Wine Industry Directory, 2005].

2.7.3.6 Competitions Act, No 89 of 1998

This legislation impacts upon all businesses generally and provides for investigation and control and evaluation of restrictive practices, abuse of dominant position and mergers [SA Wine Industry Directory, 2005].

2.7.3.7 Broad Based Black Economic Empowerment Act, No 53 of 2003.

The Black Association of the Wine and Spirits Industry’s [BAWSI] membership consists of Black businesses, NGO’s, labour unions, farm workers unions and independent trade unions. Their objective is participation in the transformation of the wine and spirits industry so that it is truly representative of South African society across the value chain of the industry.
They have three founding principles:

- The social upliftment of people on farms;
- The implementation of fair labour practices;
- To play a meaningful role in the empowering of its members to become owners of the industry [SA Wine Industry Directory, 2005].


2.8 CONCLUSION

Chapter Two has dealt with an overview of the history of wine with special emphasis on South African wine history. In addition to the history, a global overview of wine highlighting trends and the importance of the wine industry was given, again with emphasis on the South African industry. Special mention was made of legislation and governing bodies controlling the industry. The strategic direction of some of the wine producing countries and how they intend to prepare for the changes in the world of wine were also discussed.

In terms of this study, the main findings are as follows:

- Quality as opposed to quantity is important because of the trend of up trading;
- Replanting of vineyards to ensure that there is enough red wine to supply the international and local demand;
- Total management - branding, packaging and other aspects of marketing i.e. the brand extrinsics are as important as the intrinsics;
- Identification of lucrative export markets;
• Growth of the local market;
• The importance of the small vineyard/boutique wineries and in particular for this study, the family business estate wineries;
• There must be coordinated future planning on the part of the industry as well as the government.

In terms of the research objective, it is important that the wine industry and its characteristics are discussed so that the operating framework of the research participants is understood.
CHAPTER THREE

FAMILY BUSINESS

‘A family is based on emotion, nurturing and security, but a business revolves around productivity, accomplishment and profit’  

3.1 INTRODUCTION

Chapter three introduces family business, its definition in terms of this research as well as governance issues that are idiosyncratic to family business. These include the management of conflict, succession and life cycles. The purpose of this study is to develop a strategic entrepreneurial model to promote the sustainability of family estate wineries and it is therefore fitting that family business literature be reviewed to identify key issues for family businesses.

Complications arise in family business due to the fact that family business is a culmination of two interacting systems: the family and the business [Davis, 1983; Lansberg, 1988; Craig and Lindsay, 2002; Davis and Harveston, 1998] where the highly complex interrelationships between two analytically separate but inextricably linked social systems – the family and the business join [Goffee, 1996; Lansberg, 1988]. Thus, this chapter will discuss what needs to be planned in family businesses not only to avoid areas of conflict of expectations, but also to create a plan for sustainability and possibly growth.
The changing nature of the business environment makes it difficult for businesses, whether they are family owned or not, to continue long term. The very nature of competitive markets works to neutralise differentiation over time as competitors find ways to substitute offerings, businesses mature, markets change and thus the sustainability of companies is threatened. In addition to this, the technological changes and the altering of the rules for the game can decrease profits and sales [Carlock and Ward, 2001:3; Thompson, Strickland and Gamble, 2005; Peters, 2003].

In conjunction with these market forces and changes, family businesses have to contend with the family issues as well, which can often be a stumbling block to the continuity of the business. The most common cause of business failure in family owned businesses is poor succession planning [Business- Ultimate Resource, 2002:1243; Aronoff and Ward, 1992; Barnes and Hershon, 1976; Rosenblatt and Anderson, 1981; Handler, 1989; Frishkoff, 1993]. Morris et al. [1997] and Gersick, Davis, Hampton and Lansberg [1997] agree with the issue of succession and inter generational transfer, but add that the fundamental differences of time horizons of management, the implications of business failure, the degree of job security, the centralisation and accountability of decision making and the impact of the family system on the business are also factors that differentiate the survival of family businesses as opposed to non family businesses. Danco [1975], Ward [1988], Carlock and Ward [2001] and Rawls [1999] concur that family businesses are not being destroyed by confiscatory taxation, ruthless competitors, unproductive labour, technological change or insidious regulation. Family businesses fail because they allow themselves to be destroyed, slowly but surely, by the action – or more accurately, the inaction of their owners/managers.

Hamel and Prahalad [1994] argue that all businesses’ approach should be multi-faceted, emotional as well as analytical, concerned with meaning, passion and purpose. This is valid for both family owned and non-family businesses, however, the family aspect requires a more encompassing approach as family and business issues need to be included.
3.2 FAMILY BUSINESS: DEFINITION

The definition of the family firm is the first and most challenging thing facing family business researchers [Handler, 1989; Neubauer and Lank, 1998; Craig and Lindsay, 2002]. Researchers generally agree that family involvement in the business is what makes it different, however there is no consensus as to the degree of involvement. To date there is no widely accepted definition and many are reported in the literature.

Analysis of the literature suggests that there are three principal ways to consider the definitions: content, purpose and form [Astrachan, Klein and Smyrnios, 2002]. These would include the definitions of Handler [1989], Heck and Scannell [1999] and Litz [1995], which are based on content. Berry [1975] and Landsberg, Perrow and Rogolsky [1988] focus on ownership, whilst Burch [1972] and Barnes and Hershon [1976] expand ownership to include family management involvement. Ward [1988] takes this further to include generational transfer. The research of Litz [1995] concentrates on family business culture.

Examples of the various definitions for family businesses include:

- Research on family business in Germany by Klein [2000:158] is based on the following definition. 'A family business is a company that is influenced by one or more families in a substantial way. A family is defined as a group of people who are descendants of one couple and their in-laws as well as the couple itself. Influence in a substantial way is considered if the family either owns the complete stock or, if not, the lack of influence in ownership is balanced through either influence through corporate governance or influence through management. For a business to be a family business, some shares must be held within the family.'

- '(A) Family firm (is) an enterprise that, in practice, is controlled by the members of a single family' [Barry, 1989:257].
• ‘Controlling ownership (is) vested in the hands of an individual or of the members of a single family’ [Handler, 1989:257].

• ‘The … family controlled enterprise… refers to a firm in which the founders and their heirs have recruited salaried managers but continued to be influential shareholders, held executive managerial positions, and exercised decisive influence on company policy’ [Church, 1996:559].

• ‘Most simply stated, a family firm is one that includes two or more members of a family that has financial control of the company’ [Ward & Aronoff, 1994].

• ‘Strictly speaking, a family business is one that has been started by a family member and has been passed on, or is expected to be passed on, to succeeding generations of the family, sometimes through marriage. Descendants of the original founder(s) will own and control the business. Also, members of the family work, participate in, and benefit from the enterprise’ [Bork, 1986:24].

• ‘A family business is one where the controlling ownership rests in the hands of one individual or the members of a single family’ [Littunen & Hyrsky, 2000:41].

• ‘A family business is any business in which business and family relationships have a significant impact on each other’ [Hoover and Hoover, 1999:3].

• ‘A small or medium sized business run by a family owner, often with the help of other family members and passed on within the family. If a family business grows, it may be run as an unregistered partnership or, more commonly, registered as a limited company, although in both cases the partners and directors will be appointed from within the family to retain family control. In the case of larger, public limited family businesses, family members are usually majority shareholders and retain control of the board of directors, although non-family directors and shareholders will have an influence on the way the company is run’ [Business-the Ultimate Resource, 2002:1243].

• ‘If a family thinks its business is a family business, it is!’ [Frishkoff, 1993:1]
Frishkoff [1993:1] also identifies the following criteria, anyone of which qualifies an entity as a family business:

- **employees**: more than one family member working in the company (paid or not);
- **career development**: career decisions of the family are influenced by the business;
- **succession**: family relationships have influence on management succession;
- **governance**: family members hold key position or majority control of board of directors;
- **values**: family values impact business philosophy;
- **linkage**: absence of clear demarcation between family and business;
- **shared responsibility**: family shares a sense of responsibility for the business.

According to Neubauer and Lank [1998:3] 'That there is no consensus on the definition of family enterprise in the research/teaching and consulting communities, among journalists (and hence the public) and even those running a family business, is simultaneously frustrating and understandable.' Morris et al., [1997:387] comments that 'family businesses are like other firms...only different'.

The definition of family business chosen will affect the inclusion or exclusion of family businesses in the research sample. A definition should measure what it purports to measure and assist in providing reliable research results [Astrachan, Klein and Smyrnios, 2002]. As family businesses in the South African wine industry have reached beyond fourth and fifth generation ownership, the definitions supplied by Barry [1989:257], Handler [1989:257] and Littunen and Hyrsky [2000:41] would limit the inclusion of these family businesses as the question arises as to how a 'single family' is defined. Family business as defined by Bork [1986:24] and Frishkoff [1993:1] include
the aspects of family business that make them unique from other businesses as they address the criteria of succession, governance, family involvement and linkage of family and business issues.

Family businesses are distinguished from other businesses by two factors: concentration of ownership and/or control in the hands of a family and effective control of the strategic direction of the firm by family members. In addition to this, the business adds significantly to the family’s assets or income and is a source of identity and prestige in the local community [Schulze & Dino, 1997; Astrachan & Carey, 1994].

Astrachan et al. [2002] raise the question as to whether one single definition can capture the distinction between family and non-family businesses. They propose there are particular qualities of a business that should be measured on a continuous scale. The relevant issue is not whether a business falls into the family or non-family definitions, but the extent and manner of family involvement and influence on the business.

Astrachan et al. [2002] propose that three dimensions should be considered: power, experience and culture, resulting in the F-PEC [see Figure 3.1], an index of overall family influence. The power dimension includes ownership, governance and management participation, the experience dimension includes the generation in charge and the cultural dimension includes the family and business values.
Source: Astrachan, Klein and Smyrnios (2002:52)

With the above mentioned authors' definitions in mind, the following definition, will be used for the purpose of this research:

'A family business is one that has been started by a founder and is owner managed which then results in more than one family member working in the business. The business is expected to be passed on to succeeding generations of the family, sometimes through marriage, which leads to sibling partnerships and eventually family syndicates where the descendants of the original founder own or control or participate in and/or benefit from the business.'
3.3 UNIQUE CHARACTERISTICS OF FAMILY BUSINESSES

Family businesses differ from traditional businesses in that they are owned or controlled by family members and thus have greater potential for the family to be involved or influence the business matters. The potential for family member influence causes family businesses to face unique and complex problems not found in more traditional businesses [Davis & Harveston, 1998:1; Morris et al, 1997; Handler, 1989] because of the complexity of combining the two systems - family and business. This results from the fact that families and businesses are concerned about different goals.

Figure 3.2 depicts the findings of Carlock and Ward [2001] and Babl [1994] where families are concerned about emotions, focus inwardly and are resistant to change whereas businesses are task orientated, focus on the external environment and exploit change for success. Tan and Fock [2001] concur with this opinion in that the unique feature of family business is the marriage of two normally distinct systems - the family social system and the economic system - in the organisational life of a business. The challenge for family businesses lies in the management of the two systems, creating a synergistic effect.

Figure 3.2 Different Goals: Family System Versus Business System

![Figure 3.2](image)

Source: Carlock and Ward (2001: 5)
The lack of balance between the family and business issues results in both the business and the family suffering as depicted in Figures 3.3 and 3.4.

**Figure 3.3 Off Balance: Business First**

![Diagram of Business First]

**Source: Carlock and Ward [2001: 6]**

Overemphasis on the business erodes family communication, identification, loyalty and family time which will ultimately have an effect on family emotions.

**Figure 3.4 Off Balance: Family First**

![Diagram of Family First]

**Source: Carlock and Ward [2001 : 7]**

Overemphasis on the family erodes business communications, relations, performance appraisals, decision-making and strategic options.

The challenge of dealing with the dynamics or evolution of a business in a dynamic environment is equivalent in family business. However the additional dynamics and management issues of leadership planning,
succession, governance, sibling partnerships and sustaining family ownership add another dimension to this unique form of organisation. Morris et al, [1997:385] and Carlock and Ward [2001:5] agree that the fundamental differences between the nature and functioning of family owned and managed businesses and those that are non-family controlled include many obstacles.

Management styles, issues of governance and strategic planning need to adapt if the family business is to prosper and survive. The finding of a successor is not limited to the person with the most suitable track record and abilities, but has the added complications of family membership and expectations [Brown & Coverly, 1999; Tan & Fock, 2001; Ward, 1988]. Ownership and business issues need to complement each other for the prosperity of the business.

According to Erven [1996], with whom Dunn [1999] and Ward [1988] concur, each family with a business faces the reality that the business will eventually end or have new managers. He defines family business in terms of ownership, authority and responsibility. Majority ownership of a family business is by one or more family members who have the authority and responsibility for its day-to-day management as well as its mission and strategies.

There is considerable research that examines the complexity of family businesses [Rosenblatt, 1985; Ward, 1988; Handler, 1989; Gersick, Davis, Hampton and Langsberg, 1997] where it is agreed that a family business is a complex system, more complex than most public companies where ownership is widely held, and most stockholders and/or managers are not related by blood.

A family business is composed of at least two distinct systems, the family and the business. Complexity can be difficult to manage, but it also creates opportunities as long as business complexity outweighs family complexity – the business comes first [Gersick et al, 1997; Ward, 2004]. Family norms
and values have particular relevance to the activities of family businesses. Families, to a greater or lesser degree, generally have values, which support family members no matter who they are, or what they do. Relationships and emotional links are the underlying bonds that keep families together. There is no entry by choice into the family. The emotional bonds that come with family membership can be strained but are almost never broken. Families, then, can be called relationship-based systems [Rosenblatt et al, 1985; Ward, 1988; Hoover and Hoover, 1999].

The symbolic and real power of a family business cannot be overestimated. Family members' connections with business can profoundly affect their individual self esteem, as well as the quality of their relationships within the family [Davidow et al, 1990; Gersick et al, 1997; Handler, 1989; Hoover and Hoover, 1999]. Family business owners are encouraged to devote more attention to relationship issues [Morris et al, 1997; Gersick et al, 1997; Ward, 2004]. The suggestion is that a 'relationship charter' be developed as a vehicle for strategically managing relationships within the family, much as relationships must be managed with suppliers or customers.

The business system is performance-based, with the objective of profit. Employees do have a choice of entry and are hired because they are seen as being able to enhance the business's ability to achieve its objectives. The relationships are contractual rather than emotional. There is the right of exit [Rosenblatt et al, 1985; Ward, 2004; Carlock and Ward, 2001].

Family business members, as members of both the family and the business system, are involved in two different sets of objectives. One set requires unconditional support because of the family bond: the other requires discrimination on the basis of performance. The combined system of the family business can create conflict based on the two different core value systems. The family business, by definition, cannot simplify the management of emotional relationships by simply ruling them out. To be a successful member of a family business requires the development of skills
not only in managing the business, but also in managing the family [Rosenblatt et al., 1985; Ward, 2004; Tan and Fock, 2001].

In family business, the family acts as a source for employees and as a result, the personal goals of the family members employed critically affect the direction and performance of the company [Ward, 1987; Ward, 2004; Gersick et al., 1997].

Family principles dictate that unconditional help should be provided to family members and other relatives in need. Thus typically, and regardless of ability or expertise, positions of authority within the family business are reserved for family members, who for their part, often feel they have a right to a job in the company because it is a family business. Qualifications and performance are often overlooked. If there is an overlap between the family and business system, this could mean that non-family members are often excluded from the management of the business [Handler, 1989; Ward, 2004; Gersick et al., 1997].

According to Rosenblatt et al., [1985], Ward [2004] and Gersick et al., [1997] families not involved in a business enterprise will have interaction patterns, role relationships and rules about conduct and conversation governed by their domestic relationships. Whatever it takes to live in their physical and social world and to get the necessities of living accomplished, families will typically arrange interactions to somehow fit that world. However, problems may arise (or those already present may become more complex) when the family must relate in a business as well as domestically.

From a family system's theory perspective, members of many families seem to interact with one another in the same way from setting to setting. Thus a person whose family role in one setting is to be well organised and to be the initiator of activity will tend to continue that role pattern in other family settings [Kepner, 1983; Neubauer and Lank, 1998]. When family members interact with one another in both the business and the home, they tend to behave in the same manner in both places.
3.4 GOVERNANCE

The word governance comes from the Latin verb *gubernare*: to steer; to direct.

Governance is defined by the Oxford Dictionary as “the activity of governing a country or controlling a company or an organization; the way in which a country is governed or a company or institution is controlled”. Webster’s dictionary’s definition is “to exercise authority over; to influence the action of.”

Researchers agree that the creation of an effective governance system is a central task of all organisations [Steier, 2001; Bradach and Eccles, 1989; Visser and Sunter, 2002; Cadbury, 2001; Carver et al, 2001]. Steier [2001] defines governance as the framework within which exchanges occur, it is manifest in various forms, including market, hierarchy and relational contracting which concurs with Neubauer and Lank’s definition [1998] ‘a system of processes and structures to direct, control and account for business at the highest level.’

Davis [2001] states that effective governance generates a sense of direction, values to live or work by and well understood and accepted policies that tell organisation members how they should behave or what to do in certain circumstances which agrees with the research done by Gersick et al., [1997] where findings show that the key to effective management is to develop a system of involvement and governance that informs and educates and gives the family a role and a voice in the company whilst shielding the business from family politics and maintaining business integrity.

Effective governance also brings the right people together at the right time to discuss the right issues, be they internal or external stakeholders. Johnson and Scholes [2002] and Thompson and Strickland [1998] include corporate governance as an integral part of corporate strategy as it determines the
fundamental questions of whom should the organisation be there to serve and how the direction and purposes of an organisation should be determined.

Corporate governance is the power to influence purposes and the regulatory framework within which organisations operate, as well as the supervising of executive decisions and actions and the issues of accountability. Mervin King SC states that the 21st Century is the era of corporate governance where the issues of business success are essential with balance for success and sustainability, sustainable reporting and measurements for sustained success. It has become necessary to separate the ownership and management control of organisations, resulting in a hierarchical chain of governance [Cadbury; 2001]. Conflict of interest can result as people try to balance different interests. This can be more prevalent in family businesses where invariably, ownership and management are one and the same. Lifecycles have an impact, as family members need to realize that roles change with a different form of ownership or management and this is where conflict of expectations arises [Gersick et al, 1997].

There is debate amongst researchers [Cadbury, 2001; Carver and Carver, 2001] whether corporate governance should be means (organizational issues) orientated or ends (organisational purpose) orientated. Invariably governance policy demands accomplishment of purpose (ends). Ends are about the businesses’ impact on the world that justifies its existence [Carver and Carver, 2001]. Decisions that are not ends decisions are means decisions, which are most decisions in an organisation. The way in which a family business defines corporate governance will determine the nature of the key governance tasks. As pointed out by Carver et al, [2001] and Neubauer and Lank [1998], the definition ‘a system by which companies are directed and controlled’ is means orientated, whereas, ‘a system of structures and processes to secure economic viability as well as legitimacy of the business’ is ends orientated.
In the first definition, directing indicates decisions that are strategic in nature and controlling indicates oversight of management performance. In the second definition, viability indicates long-term sustainable development of the business and legitimacy indicates acceptance from society [Neubauer and Lank, 1998]. This would indicate the duality of governance policy, with the roles of boards and management coming into play.

In the early stages of the family business, management and the board are invariably made up of the same people, resulting in the fact that both the needs and means aspects of governance need to be addressed at all stages of the family business regardless of who is responsible. The governance of a family business is more complicated than for non-family owned companies because of the central role of the family that owns and leads the business.

In family business, the business, the family and the ownership need governance [Davis, 2001]. In family business, the family, ownership and management are intertwined [Craig and Lindsay, 2002; Hoy and Verser, 1994; Neubauer and Lank, 1998] which results in overlapping of these variables, which in turn affects decision-making. Good governance requires structures and processes to manage the business and the family and to improve the professionalism of the family business [Wright, Johnson and Mackenzie, 2000; Neubauer and Lank, 1998; Gersick et al., 1997].

The importance of family business to the economy has been reported and as a result of this, the way they are governed is crucial to their contribution to national economies as well as to their owners because of the impact on sustainability. Governance of family business is more complex than that of a company with no family involvement as family relationships have to be managed in relation to business relationships [Cadbury, 2001; Neubauer and Lank, 1998].
Trust plays an important role in the governance of organisations [Steier, 2001; Gersick et al., 1997; Braddach and Eccles, 1989; Ring and Van de Ven, 1992]. Family businesses represent unique organisational forms with dimensions that go beyond the bottom line and subsequently, business transactions are rarely purely economic. Family adds additional dimensions to the transactions, which normally revolve around trust and the management of relationships. The notion of family implies bonds that, if used effectively, can create strategic advantage [Braddach and Eccles, 1989; Ring and Van de Ven, 1992; Steier, 2001].

The basis for good family governance is good parenting, as this means that certain values required to execute a family governance model over time are present [Martin, 2001; Tan and Fock, 2001; Ward, 2004] where the contribution and individuality of each member is valued, whilst high standards of work ethic are predetermined. The values, ideals and sense of purpose are an essential base [Neubauer and Lank 1998; Gersick et al., 1997]. Values may be the greatest resource a family business can have [Family Business Brief, Vol 2, no 4; Aronoff and Ward, 1992; Tan and Fock, 2001; Ward, 2004].

Martin [2001] questions whether ‘family governance is an oxymoron?’ The literature [Gersick et al., 1997; Tan and Fock, 2001] shows that effective family governance is illusive, unless there is the establishment and maintenance of certain values and practices. A solid governance plan must take into account the need to provide oversight for the family wealth or business, but also consider the need to cultivate and honour the human needs of family members.

The family governance model must remain relevant in that it must be subjected to review and relevant changes must be made. Governance issues, management styles and strategy must change over time [Ward, 1988; Martin, 2001; Neubauer and Lank, 1998; Gersick et al., 1997]. This is of specific relevance as the governance of family businesses must be guided by the firm’s position in the evolutionary cycle [Neubauer & Lank,
The stage of development of a family business impacts on the governance structure chosen. Recommitment from each generation is required. Martin [2001]; Cadbury [2001]; Gersick et al. [1997] and Neubauer and Lank [1998] concur that the family governance model should be subjected to review over the passage of generations if changes are required to keep it relevant.

Research by Schulze and Dino [1997-1998] indicates that although family business failure is high with fewer than one third of all family businesses surviving to the second generation and survival rates from the second and successive generations exceeding 50 percent, more than 70 percent survived to the fourth generation [Greenwald and Associates, 1993, 1994; Leach, 1994; Kosela, Meeks and Saunders, 1989]. This indicates that if the family business does things correctly in the first and second generation, their chances of survival and succession increase. Schulze and Dino [1997], Gersick et al. [1997] and Cadbury [2001] propose that the high failure rate of first generation family firms is a product of weaknesses in the governance structure, as the structure of the family business in its formative years is likely to be informal. As the firm passes from generation to generation, the succession process is clarified, methods for the resolution of disputes are developed and formal organisation routines solve the problems of communication and decision-making. Hence the resolution of governance issues may increase the probability of a successful transfer of ownership and reduce the high rate of organisational failure in family businesses.

Schulze and Dino [1997] and Dunn [1999] conclude that the cause of failure following succession does not lay in the event itself, but the foundations of the governance structures of the first generation families over time. Governance theory also suggests that the conflict issues can be better addressed with good governance procedures. The interface of governance with the dynamics of family business and life cycles of the family need to address the issues of duality, asymmetric power relationships, informal communication and procedural structures and the lack of market for external
control [Schulze and Dino, 1997; Gersick et al., 1997; Ward, 2004] as well as juxtapose diverse family interests with those of the business [Steier, 2001].

Martin [2001] and Gersick et al. [1997] state that effective governance is only achieved in family businesses if culture and structure of open communication amongst the family is maintained, overall family is valued over individual or family branch needs, there are clear definitions of responsibilities and processes for the handling of conflict are established as well as other areas which require governance.

As indicated, there are specific areas in family businesses, which require governance for the businesses sustainability. The long-term success of the family business will depend largely on its ability to create new and effective governance structures through the different stages of growth and the transitions [Steier, 2001; Ward, 2004; Neubauer and Lank, 1998].

3.5 CONFLICT

In a family business it is ‘our’ business. Conflicts may arise as relatives see the business from different perspectives and that responsibilities are different at home than at work. At work, the success of the business must be paramount and family members who work in the business must accept the employee/boss relationship as they would in any other business. Conflict often arises when family behaviour in the workplace falls short of the ideal. Cognisance of the emotional dimension is essential for managing a family business so that objective decisions can be made in the interest of the business.

Cohn [1990] and Martin [2001] found that if there were family members in the business, it is likely that rules learned in the family as a child carry over into the business. These rules may guide the family member’s day-to-day behaviour, however what is appropriate or tolerated at home may be inappropriate in the business environment. Understanding these behaviours is important in pre-empting or avoiding potential conflicts. The employment
of family members might result in a lack of understanding the differences between the business and the family.

Understanding the business and the family as interrelated systems offers insight into some important aspects of a family business management. Role conflict complicates the family business. Family dynamics overlay and intermingle parent-child roles with those of the founder-manager and their-employee [Kets de Vries, 1993; Schulze & Dino, 1997]. Conflict arises when familial issues conflict with job demands.

Although the business and the family exist as independent systems, the two systems inevitably overlap. The success or failure of the business often begins in the overlap – this being the area where business and family become intertwined. It is in this overlap that conflict can occur. A particular family conflict can impact on subsequent business decisions that, in turn, create new sources of differences within the family [Morris et al, 1997:387; Carlock and Ward, 2001].

According to Rosenblatt et al. [1985:17] ‘Often the two systems compete for the time, energy, and financial resources of individual family members and of the family collectively. The goals of the two systems inevitably clash some of the time. The competition for the resources and clash of goals can create problems, and the ways family members deal with that competition and clash can also create problems’. The goals of a family and a business are similar, to the extent that all systems have the same requirements - for example, working out effective communication channels, rules about leadership and rules for developing and enforcing rules [Ward, 1987; Hilbert-Davis and Gibb Dyer, 2003; Hoover and Hoover, 1999].

However, the goals of a family almost certainly differ in some respects from the goals of a business. Commonly family goals may include things like a sense of self-worth for individual family members, developing personal and professional competence for individual family members, and achieving
feelings of comfort and of belonging together [Ward, 1987; Hoover and Hoover, 1999; Frankenberg, 1999].

Conflict occurs because the rules and values of the family system contradict the rules and values of the business system as indicated in Figure 3.5. The result is strain on both systems. The areas of operation highlighted in the following figure have different rules regarding participation, compensation arrangements, appraisal of activities, and training given to members of the particular system.

**Figure 3.5  Family and Business Systems Overlap**

<table>
<thead>
<tr>
<th><strong>Family Purpose</strong></th>
<th><strong>Business Purpose</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decision Making</strong></td>
<td><strong>Decision Making</strong></td>
</tr>
<tr>
<td>Parent is vested with authority</td>
<td>The boss or CEO is vested with authority.</td>
</tr>
<tr>
<td><strong>Participation</strong></td>
<td><strong>Participation</strong></td>
</tr>
<tr>
<td>Birth precludes rational hiring policy.</td>
<td>Participants hired based on competence and experience.</td>
</tr>
<tr>
<td><strong>Money</strong></td>
<td><strong>Money</strong></td>
</tr>
<tr>
<td>Participants receive allowance based on “need”.</td>
<td>Participants receive income and benefits based on skills required.</td>
</tr>
<tr>
<td><strong>Training</strong></td>
<td><strong>Training</strong></td>
</tr>
<tr>
<td>Learning opportunities provided are designed to satisfy individual needs.</td>
<td>Learning opportunities provided are designed to satisfy business needs.</td>
</tr>
<tr>
<td><strong>Review</strong></td>
<td><strong>Review</strong></td>
</tr>
<tr>
<td>Participants are regarded as “ends” rather than “means.” Growth and expression are encouraged.</td>
<td>Participants are regarded as ‘means’ rather than “ends.” Growth consistent with organisational purpose.</td>
</tr>
<tr>
<td><strong>Recognition</strong></td>
<td><strong>Recognition</strong></td>
</tr>
<tr>
<td>Ideally, no differentiation is made among participants.</td>
<td>High performance is recognised and rewarded.</td>
</tr>
</tbody>
</table>

**Source:** Cohn [1990]
Ward [1987:91] emphasises the importance of being prepared for this conflict: "Families find that considering these challenges ahead of time increases the chance of solving them to everyone's satisfaction."

Boundaries between family life and business are necessary as tensions from one may spill over into the other resulting in conflict. Family strains occur when the issues concerning the business pervade family discussions and interactions outside the business. Difficulties in family businesses, according to Erven [1996:1], Fritz [1997] and Dunn [1999] are related to human interactions amongst family members and their inability to isolate family issues from business issues. Family businesses mix business and family. The elimination of conflict in a family in business together requires the acceptance of the double lives everyone is living.

Solutions to problems are rarely pure business or pure family in nature so attempts at complete separation are counterproductive [Erven, 1996; Bork, 1986; Alcorn, 1982]. A common source for conflict lies in the conflict business founders have always faced between being a fair parent and a sound businessperson [Cliffe, 1998; Fritz, 1997; Birley, 2001]. Business strains occur due to excessive family emotionality, conflict, unrealistic expectations, and arbitrary policies for family members within the context of business.

Drucker [1995:1] notes that if the family business is to survive, it must stringently observe the following rules:

- Family members working in the business must at least be as able and hard working as any unrelated employee;
- The demands for knowledge and expertise have become too great to be satisfied by family members alone, no matter how competent they may be. Non-family members hired for their expertise need to have 'full citizenship' in the firm in order for them to stay;
• A non-relative must fill one top job. Such an outsider can be objective and does not have to worry about the reactions of the family members, whether in the business or not;
• Both the business and the family will survive and do well only if the family serves the business. Neither will do well if the business is run to serve the family.

3.6 LIFE CYCLES

Dunn [1999], Ward [1978] and Gersick et al, [1997] have researched the lifestyle concepts in the study of dynamic systems to illustrate how individuals, families and organisations cope with and manage change in their environments. People, families and organisations undergo cyclical processes of birth, growth and decline. It is important to accommodate the change and manage the resistance that comes with it, as the change causes uncertainty, which results in the equilibrium being disturbed. This life cycle approach to family businesses is appropriate as the subsystems of family businesses are active and emotionally directed at changes in the system’s functioning in order to recreate an equilibrium [Dunn, 1999; Steier, 2001]. Ultimately individual and company life cycles must diverge [Gersick et al, 1999].

An entrepreneur’s career from entry to exit will have several points where the entrepreneur’s family membership and family relationships can interfere, positively or negatively [Dyer, 1992; Steier, 2001]. The complexity of the family business encompasses multiple life cycle transitions: business life cycle transitions, family of origin’s life cycle transitions, individuals own life cycle transitions, multi generational family functioning and individual emotional functioning [Dunn, 1999; Ward, 2004].

It is not only the management of the different cycles of the business that is important but also the management of the transitions. Each transition is accompanied by a challenge [Gersick et al, 1997; Steier, 2001; Ward, 2004].
Trust as a governance mechanism facilitates these transitions. Ward [2004] identifies three distinct stages of family businesses: the owner managed era, sibling partnerships and cousin collaboration.

Littunen and Hyrsky [2000:43] recognise that family business follows a pattern of development as non-family business does. Taking the business life cycle stages from management literature, research has been conducted in the field of family business. Change and growth occur over time, with periods of stability and tumultuous transition. Alcorn [1982] identifies three stages in the development of a family business: an entrepreneurial stage, maturity and succession.

Ward [1988] incorporates into his family business model the ages and characteristics of two generations of family members and the individual owner manager, phase of the organisation and major changes in each phase. The model has three stages of growth: (0-5 years) early, (10-20 years) middle, and (20-30 years) late. According to Ward, various forces have an effect on the passage of the family business through predictable patterns of growth and change.

These include the following:

- Nature of the business (type of product, market conditions);
- Character of the organisation (size, complexity);
- Motivation of the owner-manager;
- Financial expectations of the family;
- Family goals

Family businesses pass through the evolutionary stages of development as non-family businesses do. Over time there are changes in the business itself and in the distribution of ownership [Balshaw, 2004]. These include product life cycles and the industry's evolution. They include market growth
and size, competitive entry, the customer's desires and sophistication[Porter, 1980].

Porter [1980] recognises that depending on the rate of technological change, increasing number of competitors and global standards for competition, the business life cycle normally lasts twenty years which results in an emerging family business leader experiencing two or more cycles during their leadership. These changes call for revision of business strategy as the family and the family business go through specific stages of development.

### 3.7 SUCCESSION

‘The final test of greatness in a CEO is how well he chooses a successor and whether he can step aside and let his successor run the company’ [Drucker, 1995].

There is an old German saying that the first generation creates the company, the second develops it and the third loses it [Betts, 2003]. Succession is the ultimate test of family business [Gersick et al, 1997] where the fundamental challenge is achieving succession success [Rawls, 1999; Fritz, 1997; Cliffe, 1998].

Succession is a strategic issue shared by all family firms. Issues of succession are also evident in selecting a new CEO in non-family businesses, where they are not bound to choose a family member. According to Oliver [1996], organisations approach the issue too late and inadequately map, model and match the environment in which the company must operate with the characteristics of a future leader. Mismatches create a tremendous waste of opportunity and talent.

Fetsch [1999] and Rawls [1999] believe that succession planning in family businesses is a process that begins with the birth of the first child and takes a lifetime to accomplish. This view is supported by Stavrou [1996] and Tan
and Fock [2001] in that succession is not a static event, or a process that begins once heirs are involved in the business; it is a long-term endeavour initiated early in the heirs' lives.

Gersick et al. [1999] take this one step further in that succession is not a single event, but a process that is driven by a developmental clock-beginning early in the lives of some families and continuing through maturation and aging of generations. Zaudtke and Ammerman [1997]) and Henshaw [1997] limit the succession in their belief that a comprehensive succession plan generally requires a 10 - 15 year horizon to be properly structured with a timetable set for the transition and succession process.

Morris et al. [1997] propose three sets of successful family business transitions: the preparation of the heirs, the nature of the relationship among family members and the types of planning and control activities engaged in by the management of the family business.

The study of succession has focussed on the event itself – has a successor been appointed or not, whereas other studies have focussed on the need to understand the succession planning process [Davis and Harveston, 1998; Handler, 1989; Dunn, 1999; Christensen, 1953].

Succession is the transference of ownership for the purposes of continuing family ownership, which must be addressed for the business to survive and be passed on to subsequent generations [Davis et al, 1998; Connolly and Jay, 1996; Fritz, 1999]. It is an opportunity to make the most out of family business assets and a way to perpetuate the special privileges and opportunities of ownership for new generations [Aronoff and Ward, 1992; Cabrera-Suarez, De Saa- Perez and Garcia-Almeida, 2001]. A proper succession process affords family firms the opportunity to select effective leaders who are capable of rejuvenating and managing the business [Ibrahim et al, 2001; Bjuggren and Sund, 2001].
Succession can be focused on the event itself or in terms of the succession planning process. The difficulty in instituting a structured succession plan can be attributed to the fact that many family business owners prefer to live with ambiguity in that there is reluctance of founders and entrepreneurs to accept their own mortality, reluctance to let go of power, an unwillingness to show favouritism amongst children by choosing one child or to generational envy and resistance to change [Matthews et al., 1996; Aronoff and Ward, 1992; Davidow and Narva, 1996] and the fact that there is conflict between being a fair parent and a sound businessman [Cliffe, 1998].

Avoidance of the issue protects owners from making tough decisions. Succession planning is in direct conflict with the entrepreneur’s need for control, power and meaning [Gibb-Dyer and Handler, 1994; Longnecker and Schoen, 1976; Chin and Chan, 1998]. The backbone of any succession effort is a good plan, which should include a business strategic plan, the founder’s personal financial plan, the family’s strategic plan and the owners estate plan [Aronoff and Ward, 1992; McGivern, 1989; Chin and Chan, 1998; Davidow and Narva, 1996]. Christensen [1953] and Davidow and Narva [1996] concur that the following elements need to be included in the succession planning process: identification of a pool of potential successors, willingness of the identified successor to take over, the actual designation of the successor, the notification of the successor-designate and other major power figures of the designation by the predecessor or by appropriate higher authority. Succession represents a process of mutual role adjustment between the founder and next generation family member [Handler, 1990; McGivern, 1978; Barnes and Hershon, 1996].

Matthews et al., [1989] and Chin and Chan [1998] recognise two factors in the succession issue: the tendency to put the needs of the family before those of the business and the neglect of issues and problems associated with ownership and management succession. Both, the formal and informal or official and unofficial influence must be considered rather than just the granted authority [Grusky, 1980; Fritz, 1997; Brown and Coverly, 1999]. Research suggests that family business owners must prepare for leadership
succession in a systematic manner to ensure continuity. One of the most difficult dynamics is to move from a parent-child to a peer relationship [http://knowlegde.wharton.upenn.edu/images/hdr_12.gif]. Succession planning is the key to successful succession [Ward, 1987; Langsberg, 1983; Bork, 1986; Ward and Carlock, 2001; Davidow and Narva, 1996]. It should lead to minimal conflict, as conflict is detrimental to the family and the business.

Santiago [2000:15] in her research proposes that the key to smooth succession for group-orientated families is more dependent on the succession process being consistent with family values. Management needs are a function of both the present and the future organisation. Predicting future needs is the key to hiring and developing qualified personnel at all levels and particularly in management [Schollhammer et al, 1979:263; Gersick et al, 1997].

All family firms must face the problem of ownership succession at some point. When the time comes, the decision must be made to let a younger generation of family members take over or sell the shares in the company to an outsider [Bjuggren et al, 2001; Davidow and Narva, 1996]. Succession requires that the following must be dealt with - aging, mortality, control and power as well as the business issues of ownership, management, strategic planning and replacing professional relationships from one generation with the next [Davidow and Narva, 1996; Carlock and Ward, 2001; Zaudtke and Ammerman, 1997]. Bowman – Upton [1991] adds the following options: close the doors or retain ownership, but hire outside management.

Connolly and Jay [1996:157] state that issues of management succession and how to solve them depend to a large extent on the relationships among second generation family members, their relationship with the founder, the extent of the desire to maintain the business as a family business and the best and most practical way to resolve management succession. More often than not, a family business closes down or is sold on the passing of the founder, not because the family made a conscious decision to do so, but
because nobody made a conscious decision about anything. Often family businesses do not fail; they fail to plan [Connelly & Jay, 1996:157].

According to Frishkoff [1993:1] management succession problems include the following factors:

- Absence of vision or failure to communicate that vision;
- Paying people what they need and not what they are worth;
- Failure to appoint a successor;
- Inadequate training of successors;
- Gender and age prejudice;
- Differing values between generations, especially relating to work ethic;
- One – person show as principal management style.

Zaudtke & Ammermann [1997:55] propose that typically only one in three businesses is successfully transferred to the second generation. Survival of a family business into the third generation is a rare occurrence. They identify four key elements, which must be in place for successful succession. This must be structured over a ten year horizon:

- Plan the succession management;
- Define family employment practices;
- Establish and maintain family harmony;
- Plan your estate.

Most of the literature on family business focuses on the selection of the successor with integrity and commitment to the business being identified as important characteristics [Sharma, Chrisman and Chua, 1998] as well as the succession planning and training [Astrachan and Lansberg, 1994 ; Fritz, 1997; Rawls et al, 1999]. Although these issues are very important, findings by Tan and Fock [2001] indicate that the transition to the new leader is the key to successful succession as focusing on succession planning is not enough, as the chosen successor might not be the new leader. Dunn [1999]
agrees that the transition to ownership needs to be understood for successful succession.

The difference between ownership transition and leadership transition is key. The two must coincide. Mere succession to a business is no guarantee of success [Tan et al, 2001].

The entrepreneurial vision and tacit knowledge, which is embedded in the founder must be transferred as this a source of competitive advantage [Cabrera-Suarez, DaSaa-Perez, Garcia-Almeida, 2001; Tan et al, 2001; Hall, Melin and Nordqvist, 2001]. One characteristic of this leader that is central to growth is entrepreneurship and the values of the family, where the vision is the continuity and growth of the family business [Tan et al, 2001; Ward, 2004; Gersick et al, 1997]. Information about the family business is more often than not embedded in certain individuals, generally the founder/entrepreneur, therefore understanding the importance of knowledge transfer in the succession process should help maintain competitive advantage and also continuity [Cabrera-Suarez et al, 2001].

As most literature considers the succession the most crucial issue in family businesses, the transfer of knowledge adds a new dimension to this thinking, as knowledge is seen as the main resource supporting competitive advantage, thus its transfer will determine the success of the business transfer [Spencer and Grant, 1996; Cabrera - Suarez et al, 2001; Dunn, 1999].

Succession cannot be looked upon as a single event, but rather as a multi-stage process. The successor must become involved in the business over a period of time in which the predecessor reduces their involvement until a real transfer of power, knowledge and leadership takes place. It is a transition of roles. It is not a simple issue, but rather complex as the different perspectives of the different stakeholders need to be taken into account. These include the founder/predecessor, the successor, other family members, managers, the owners and the external business
environment. The successor must familiarise himself/herself with the nature of the business, the employees and develop the capabilities needed for the business, which will enable credibility, acceptance, support relationships as well as capture explicit and implicit knowledge to ensure their performance as manager and leader. Family businesses should favour a quality relationship of mentoring where the emphasis is on the transfer of tacit as well as explicit knowledge [see Figure 3.6].

**Figure 3.6 Model of Knowledge Transfer and Successor’s Development in Family Firms**

Source: Cabrera-Suarez, Saa-Perez and Garcia-Almeida [2001 : 41]
Many families make the mistake of assuming that all members share the same value system [Aronoff & Ward, 1992]. Zemke's [2002 : 39] research on generational differences should also be considered in the succession process in family businesses. 'At no time in history have so many different generations with such different views, values and approaches been asked to work together' [Zemke, 2002]. This poses a problem for all organisations, but this is compounded for family businesses because of the issue of succession. The challenge in business is to deal with the clash of generational values, ambitions and mindsets. Each generation has a unique perspective on work. Understanding these differences is critical for leaders.

Barach et al. [1988] focus on earning legitimacy, which is based on tradition, attitudes and rational belief in a particular social structure. Legitimacy must be demonstrated to the potential successor by the actions of others. Tagiuri and Davis [1984] and Danco [1979] believe that children should work elsewhere early in their careers. They concur that credibility can be the key to legitimacy, where credibility is defined as ‘the perception of others in the organisation of his or her ability and intention to deliver valued results’ [Sathe, 1985]. The older and younger generation must accept each other and each other’s abilities. Well-planned strategic changes can facilitate succession as they can create a place for the next generation [Barnes and Hershon, 1975; Carlock and Ward, 2001; Byrne, 1998].

Good succession planning enhances the value of the business [Aronoff and Ward, 1992].

3.8 CONCLUSION

Chapter three examined the various definitions of family businesses. There is no official or recognised definition of family business. The importance of a definition relevant to the research was highlighted and a definition was constructed.
The uniqueness of family businesses was indicated highlighting the fact that they are the amalgamation of family and business systems.

The following are of interest to this study:

- The overlap of the family and business systems more often than not results in areas of conflict;
- The management of this conflict and the effect it has on the business efficiency is unique to the family business;
- Life cycles and the impact they have on the family business were discussed;
- The importance of succession planning and the resultant damage if there is no succession plan were highlighted as an integral part of family business failure;
- The role of corporate governance for family business was addressed with emphasis on its importance for all the other family business issues.

As the participants in this research are family businesses, it is important that the characteristics of family businesses are discussed, as they have been in Chapter three, so that there is a frame of reference for the research.

Chapter four will deal with strategy, another important aspect of family business.

In concluding chapter three, the findings from the literature are summarised in the words of Drucker [1995]; 'Both the business and the family will survive and do well only if the family serves the business. Neither will do well if the business is run to serve the family.'
CHAPTER FOUR

STRATEGY AND ENTREPRENEURSHIP INTERFACE

‘Too much is happening too quickly for the tinkerer to succeed’
[Peters, 2003 : 28].

4.1 INTRODUCTION

Chapter three dealt with the importance of family businesses as well as governance and the problems unique to family businesses. These included issues of conflict, succession, life cycles and governance. Chapter four will cover the business issues of strategic planning and entrepreneurship. The models and strategies, identified from the literature, for family businesses, culminating in the strategic entrepreneurial interface, will follow this.

Entrepreneurship is about creation and strategic management is about the process to achieve above average performance via competitive advantage [Hitt, Ireland, Michael Camp and Sexton, 2005: 33]].

4.2 STRATEGIC PLANNING – AN OVERVIEW FOR FAMILY BUSINESS

The complex issues of a family business have been identified and discussed. It was reported that the family business is an odd system. There are business systems and there are family systems. Each system has a different set of rules and regulations. The purpose of the family system is to raise and nurture unconditionally, whereas the purpose of the business
system is for profit and money for all owners. It is highly conditional on actions and results. The family business is a new system with combined and conflicted problems. It is an overlapping of these two systems [Fritz, 1997; Carlock and Ward, 2001; Ward, 1988; Le Van, 1999].

The role of the family provides a critical dimension. Intangible resources are more likely to contribute to a competitive advantage because they are socially complex and difficult for current and future rivals to understand and imitate. Family businesses have the advantage of intangible resources because of the nature of family businesses.

Unlike non-family firms that usually discourage family involvement and have policies against nepotism, the family in the family business plays an integral role [Hilbert-Davis & Gibbs Dyer Jr, 2003; Carlock and Ward, 2001; Neubauer and Lank, 1998]. One of the main reasons why family firms fail to transfer the business from generation to generation successfully is because of the lack of strategic planning which is ultimately the lack of governance [Bowman-Upton, 1991; Carlock and Ward, 2001; Aronoff and Ward, 1992].

The purpose of this research is to develop a strategic entrepreneurial model to promote sustainable behaviour of family businesses in the South African estate wine industry which should address the overlapping of the family and business systems.

The relevance of strategy in all businesses is evident from the literature, with three dominant questions coming to the fore:

- Where are we now?
- Where do we want to go? and
- How will we get there? [Thompson and Strickland, 1998; Johnson and Scholes, 2002; Hamal and Prahalad, 2002; Thompson, Strickland and Gamble, 2005].
Strategy can be defined as a framework within which the choices about the nature and direction of an organisation are made [Freedman, 2002]. The term strategic planning refers to the process of developing a business strategy. A company’s strategy consists of the competitive moves and business approaches that managers employ to attract and please customers, compete successfully, grow the business, conduct operations and achieve targeted objectives [Thompson, Strickland & Gamble, 2005:3]. Larréché [2002:87] refers to competitive leadership as the ability to manage and measure intangible capabilities.

Strategic management is defined as ‘the game plan management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance’ [Thompson et al., 1998:2]. Porter [1990] defines successful strategy as the ability to tailor strategy to an industry and to the skills and assets of a particular firm. A plan increases the likelihood of the long-term success of a business.

4.3 ENTREPRENEURSHIP

Entrepreneurship originates from the French word *entreprendre* meaning to undertake or take in one’s own hands [Oxford Dictionary, 1976]. In its initial stages in the Industrial Revolution, it was defined as individuals who took an idea and created a venture out of it [Schaper and Volery, 2004].

Entrepreneurship as a field of study shares a commonality with family business, which falls under the discipline of entrepreneurship, which, despite its apparent importance has not yet been clearly defined and as a result, numerous definitions abound. This creates a problem for comparative scientific research.
It is a multifaceted phenomenon spanning many disciplinary boundaries and thus many perspectives, methodologies and units of analysis exist resulting in many definitions.

Definitions include the following:

- ‘Entrepreneurship is seen as new combinations including the doing of new things or the doing of things that are already being done in a new way. New combinations include the introduction of a new product, new method of production, opening a new market, new source of supply or new organisations [Schumpeter, 1934].’
- ‘Entrepreneurship is an act of innovation that involves endowing existing resources with new wealth - producing capacity [Drucker, 1985].’
- ‘Entrepreneurship is a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach and leadership balanced [Timmons, 1997].’
- ‘Entrepreneurship encompasses acts of organisational creation, renewal or innovation that occur within or outside an existing organisation [Sharma & Chrisman, 1999].’
- ‘Entrepreneurship research seeks to understand how opportunities to bring into existence future goods and services are discovered, created and exploited, by whom, and with what consequences [Venkataraman, 1997].’
- ‘Entrepreneurship refers to the creation of a new economic entity centered on a novel product or service or, at the very least, one, which differs significantly from products or services offered elsewhere in the market [Deakins and Freel, 2003].’
- ‘The process brought about by individuals of identifying new opportunities and converting them into marketable products or services [Schaper and Volery, 2004].’
From the definitions, it is evident that some researchers feel that entrepreneurship is the study of the entrepreneur and what he or she does, [McClelland, 1961; Collins and Moore, 1970; Meredith, Nelson and Neck, 1982; Kets de Vries, 1997] the creation of new organisations, [Stevenson, Roberts and Grousebeck, 1985; Gartner, 1988; Low and McMillan, 1988] innovation, [Drucker, 1985; Venkataraman, 1997] opportunity recognition, [Timmons, 2004; Morris, 1998] and many more. Entrepreneurship is also associated with small business management [Gibb, 1996; Deakins and Freel, 2003].

There are distinctions in the type of entrepreneurship, but it can be concluded that entrepreneurship cannot only be confined to new ventures or that entrepreneurs only work for themselves, but that it is rather about a pattern of behavioural characteristics, which include innovation, opportunity realisation, initiative, creating and managing vision and leadership to name some of them [Welsch, 2004; Kirby, 2003; Schaper and Volery, 2004].

4.4 STRATEGIC ENTREPRENEURSHIP

‘Good management was the most powerful reason leading firms failed to stay atop of their industries..... this is not the time for creating castles and moats.....it is time for creation. Our challenge is to create markets’ [Peters, 2003].

An entrepreneurial mindset is required for firms to compete successfully and sustainably in the new competitive landscape. Effective strategic and entrepreneurial actions are required. Strategic actions are those through which companies develop and exploit current competitive advantages whilst supporting entrepreneurial actions exploit opportunities that help create competitive advantage for the future.

Entrepreneurial actions are actions through which companies identify and then seek to exploit entrepreneurial opportunities rivals have not noticed or
fully exploited [Hitt, Ireland, Camp and Sexton 2002; Ireland et al. 2001].
Entrepreneurial and strategic actions are complementary and not
interchangeable, the prior creating goods and services, the latter
establishing a competitive advantage with them, to create maximum wealth
[Ireland et al, 2001; McGrath and Macmillan, 2000].

Intangible resources are more likely to contribute to a competitive advantage
because they are socially complex and difficult for current and future rivals to
understand and imitate. The alternative to a strategically entrepreneurial
firm would be a bureaucracy, with emphasis on structure, tight control, lack
of flexibility and risk aversion [Kirby, 2003]. Eisenhardt et al. [2000] propose
the involvement of six processes to make entrepreneurship a standard
strategic practice: improvisation, co-adaptation and collaboration, patching,
regeneration, experimentation and time pacing. This approach is different to
the traditional strategic approach and encourages the ‘rhythmic flow of
change over time’ [Eisenhardt et al, 2000] and removes the temptation to
build on the past along lines of presumed strategic advantage’ [2000:58].

4.5 FAMILY BUSINESS STRATEGY

Family and business plans are interdependent. The business plan requires
the family to determine the extent of its commitment to the company, but that
commitment in turn depends on the prospects for the business that the
planning process reveals

In order to create and implement a successful family business strategy,
family business leaders need to understand the real reasons for their
success and the possible short-comings in the business. ‘Conducting a
family business audit is an important step before planning as it ensures that
the firm stays strategically fresh and doesn’t let past achievements limit
future success’ [Pendergast, 2004].
From a strategic management point of view, families are both a resource and a constraint [Craig and Lindsay, 2002]. The lack of planning is the primary cause for failure. Planning includes strategic planning for the business, strategic planning for the family, which in turn will include estate and succession planning.

If planning is essential to family business, coordinated planning should ensure growth and success.

Planning in the different areas should be linked and cross-referenced: succession planning with estate planning; strategic planning with succession planning; business planning with strategic planning; disengagement planning with strategic and succession planning [Bowman-Upton, 2001; Ward, 1994; Stavrou & Swiercz, 1998; Lea, 2005].

Strategic planning allows for each generation to chart its course for the future of the business, whereas family strategic planning establishes the role of the family in the business. Succession planning eases the transferring of leadership of the business, disengagement planning is the plan to harvest the business, whereas estate planning allows for the business to go to the heirs instead of taxes [Bowman-Upton, 1991; Lea, 2005].

One of the important areas of research that has been overlooked is strategic management, as it relates to family business, not only in quantity but also in adequate rigour [Wortman, 1994; Ward, 1988; Brockhaus, 1994; Hoy and Verser, 1994]. Despite this lack in research, it is agreed that the strategic planning processes and resulting strategies of family businesses differ from the processes and strategies of non family businesses because of the influence of the family on the business and the contradictions that arise between the family and business systems [Ward, 1994; Carlock and Ward, 2001; Ward, 2004; Ward, 1987; Tanewski, Romano & Smyrnios, 1988]. The aforementioned writers defend the importance of approaching family dimensions and problems from a strategic management view.
Significant differences between family and non-family owned businesses on strategic long term and operational variables exist. The majority of researchers agree that in addition to the lack of research there is a lack of strategic planning in family businesses, which has often led to their demise and unsuccessful transition from one generation to another [Stavrou & Swiercz, 1998; Birley, 1991; Carlock & Ward, 2001]. Family firms are encouraged to perform strategic, business and succession planning [Ward 2004; Carlock and Ward 2001]. Strategic planning is highly correlated with better estate and succession planning and with stronger revenue increase [http://www.businessforum.com/family05html]. The family/business strategic plan establishes policies for the family’s role in the business and is necessary for the business to remain healthy and viable [http://www.gofso.com/Premium/BS/fg/fg-succession.html].

The implementation of the plan may avoid later conflicts about compensation, sibling rivalry, ownership, management control and other family conflict issues. Research shows however that most family businesses do not plan or implement the plan. Previous research done by Greenwald and associates and Arthur Anderson [1995] shows that between 58 and 69 percent of family businesses in the USA do not have a written business plan. This is also the case in Australia, where research done by Tanewski, Smyrnios and Romano [1997] indicates that 51 percent of owner managed businesses did not have formal long term strategic plans and that 37 percent did not have written business plans [Tanewski et al, 1988]. Ward, [1997]; Daily and Dollinger, [1992]; Kets de Vries, [1993]; Gersick, Davis, Hampton & Landsberg, [1997] concur that most family businesses do not plan as the founder is fixated on a previous successful strategy or in other words ‘we stick to what we know how to do and do it as well or better than anyone else’ which is a Defender strategy.

Family firms are often characterised as being introverted, burdened by old traditions, inflexible and resistant to change. This results in growth not being a key strategy for family firms. The entrepreneurial characteristics of the founder often disappear as the firm matures. They are reluctant to plan and
if they do, adopt a strategy that replicates past successes. Strategic planning is often ad hoc, based on the senior generation’s intuition and is invariably triggered by a crisis or setback such as the premature death of the patriarch, steadily declining profitability, change in customer needs, products, technology, competition [http://www.familybizz.net/fam-bus-issue-stp-plan.asp].

Harris, Martinez and Ward [1994] in their review of family business strategy literature list the following family characteristics as influencers of strategy:

- Inward orientation [Cohen and Lindberg, 1974];
- Slower growth and less participation in global markets [Gallo, 1993];
- Long term commitment [Danco, 1975; Becht, Betts & Morck, 2003];
- Less capital intensive [Friedman & Friedman, 1994];
- Importance of family harmony [Prostel and Nichols, 1982];
- Employee care and loyalty [Ward, 1998];
- Lower costs [McGonaughy, Walker & Henderson, 1993];

The real wealth of family businesses is its human and intellectual capital – if this is successfully reenergized and readjusted in each successive generation, the family will maintain its existence and financial prosperity. This requires change which is a strategic process, however, family businesses with long histories tend to want to remain the same [Karatzas : nd; Dyer, 1986; Gersick et al, 1997]. Where management was about conformity and control, it is now about continuous innovation and improvement. Family businesses that encourage the idea of strategic change and view the younger generation as a resource to that process are more likely to successfully navigate generational transfer.
In addition to the contradictions that arise between business and family systems are the different phases that the family, the owner and the business go through in terms of life cycles. According to research conducted by Westhead [2001] and Gudmundsun et al. [n.d], family firms should not be regarded as a homogenous entity. Multi-generation family firms may be generally more complex in terms of ownership and management than first generation firms and may differ in different industries and situations. Each stage has its own hurdles and challenges and the strategic plan has to take these into account [http://www.familybizz.net/fam-bus-issue-stp-plan.asp].

Competitive advantage is the cornerstone of strategic design. Cabrera-Suarez et al., [2001:37] recognise that although the basic strategic management process is similar for both family and non-family firms, there are several important differences between them. These differences based on the owner family’s goals, values and influences relate to the goals they seek, the way they perform and the people who participate in the business. Conflict arising from the overlap of family and business systems cannot be avoided entirely. However, successful families devise strategies that help them to keep the overlap under control, and minimise the possibility of the sort of major problems that arise when one set of values engulfs another.

Today, all businesses have relatively the same access to technology, management expertise and funding. It is the management of the people side of the business as well as entrepreneurial flair, which will differentiate survival from failure. This supports Larréché’s [2002] theory of capabilities.

Competitive advantage comes from distinctive resources and capabilities that firm’s control - that is something firms do well in comparison to their competitors. In analysing the family business, there are some strategic resources and capabilities that may bring about competitive advantage. The family business’s unique features (commitment, shared values, culture, trusts, and reputation) give it certain strategic resources and capabilities that could account for its long-term success [Cabrera-Suarez et al, (2001:38)]. Fowler [2001] agrees with this view in that although family businesses must
compete in the same world market place as non-family owned businesses, the family values, loyalty and commitment to long-term vision give family owned businesses a competitive advantage. However, emotional dynamics between family members owning the business can often drain resources that could be better focused on beating the competition. The family business has many unique strengths and advantages, including a powerful sense of mission and noblesse oblige, far surpassing what is found in the corporate sector [Business Forum Online, 2005].

This kind of knowledge, that is information about the family bundle, is frequently embedded in certain individuals, generally the entrepreneur/family business founder. Therefore, understanding the importance of knowledge transfer in the succession process may help and develop competitive advantage in family firms [Cabrera-Suarez et al, 2001:39]. In family businesses where technical knowledge and skills have given the business competitive advantage, it is vital that this knowledge be transferred as part of the succession process.

In addition to this, family owned businesses have six characteristics that can contribute to successful business strategy and can provide the leverage for competitive advantage and core competencies of the business:

- Long term vision: focus is on long term ownership rather than short term profitability;
- Loyalty: not only within the family, but also from customers and employees because of the long term vision;
- Lower cost of capital: reinvestment of profits back into the business;
- Niche markets;
- Flexibility: being owner managed they have the ability to be flexible and respond to changes timeously;
- Customer service: the ability to develop close personal relationships [Fowler, 2001].
It is extremely difficult for family business leaders to design a business strategy unless they know what the estate plan and personal financial strategy of the family are. At the same time it is very difficult for the family to prepare for its own security and estate plans unless it knows what the business strategy is. There must be a link between the two [Carlock and Ward, 2001; Ward, 1988; Neubauer and Lank, 1998]. The American Family Business Survey 1995 sponsored by Arthur Andersen Centre of Family Business indicates that 51 percent of the 3860 families researched have a strategic plan in place, but that full details of the strategic plans are not shared with company management in 35 percent of these cases [http://www.businessforum.com/family05.html]. Without involvement, buy in and commitment to vision, the implementation of these plans would be very difficult and this lack of involvement almost defeats the purpose of strategic planning.

Strategic writers agree that business and strategic planning is critical for business success, growth and performance [Thompson, Strickland & Gamble 2005; Johnson & Scholes, 2002; Hamel, 2002]. Family business researchers concur that the same is evident for family businesses [Upton, Teal & Felan, 2001; Ward, 1988; Astrachan and Kolenko, 1994; Carlock and Ward, 2001]. Most family business research focuses on succession planning and not strategic planning. Succession planning should be included as part of the strategic plan as the integration of the younger generation into the firm is of strategic importance. This highlights the issues of family and business as adjusting the business to the new generation’s inputs and demands are issues not normally included in business planning [Ambrose, 1983].

Family businesses must first create a strategic plan before determining a management transition. This enables the generations to acknowledge strengths and face threats and weaknesses, with each generation achieving its objectives in concert rather than in opposition [CEO Resources, 1999].
Success in transferring the business must be a part of the strategic implementation. Integration of family members should be as important a goal as profit targets and product ranges. This of course would include other strategic issues such as the restructuring of the organisation to reflect the sibling involvement. Strategic management relating to family business is guided by four principles: professionalising the business, preventative maintenance, careful distribution of power and resources and effective transition management [Smyth et al., 1993: 31].

Successful strategic formulation and implementation must result in favourable outcomes for both the firm and the family where family businesses must establish business objectives but also integrate longer term ownership planning with business planning [Barach et al., 1988; Fowler, 2001]. Undertaking strategic planning reflects that a family understands the nature of future challenges and hopes to address how they will deal with those challenges.

Family business writers have formulated approaches to strategies in family businesses where they have concentrated on conceptualising strategic management issues in family businesses and have provided a descriptive analysis of the status of planning.

Common issues that are apparent from the majority of the researchers are the following:

- The preparation of the family strategic plan alongside the business plan [Ward, 1987; Carlock and Ward, Fowler, 2004; Upton et al., 2001; Faulhaber, 1997; Tanewski et al., 1988; Bowman-Upton, 1991; FSO Technologies 2003; Summit Advisory 2004; Neubauer & Lank, 1998];
- Business strategy first and then the family strategy [Fowler, 2001; Duncan, 1996];
- Family strategy first and then the business strategy [Carlock, 1998];
• Strategic focus determined by the life cycle of the family business [Gersick et al, 1997];
• Succession planning as an integral part of strategic planning;
• Estate planning as an important part of strategic planning.

4.6 MODELS FOR FAMILY BUSINESS STRATEGY

Family business researchers have developed models on many aspects of family business. The models of Ward [1987] and Carlock and Ward [2001] will be discussed in detail for the purpose of this study, as they relate to the integrated planning for family and business.

Ward [1987] recommends the preparation of the family strategic plan alongside the business plan. Of importance is to ‘spell out the long-term personal and professional goals for family members and clarify the family structure suitable for accomplishing these goals' [Ward 1987:98]. It is imperative that the business plan reflects the family considerations. Strategic direction is determined by the family’s vision. The result is that family and business plans are interdependent. Strategic planning for family owned businesses requires that the following family issues be integrated:

• What are the long-term personal and professional goals of family members?
• What is the family mission? Why are you committed to establishing and operating the business?
• How do you envision the firm in the future?
• Will family members be active in the management or will they be passive members?
• How will issues such as compensation, benefits and performance evaluation be handled? [Bowman-Upton, 1991].
The answers to these questions will affect the business strategy. 

_Familiness_ is defined as the unique bundle of resources and capabilities a particular organisation possesses because of the family firms system’s interaction among the family, its individual members and the business. However, to perform well, a firm needs more than this as it requires tacit knowledge embedded in the firm’s routines to integrate, coordinate and mobilise these resources and capabilities successfully [Cabrera et al, 2001; Grant, 1991] which is illustrated in Ward’s model in Figure 4.1, where the integrated steps of family and business planning are followed in logical sequence.

Figure 4.1 Interdependence of Family and Business Planning

Three forces – family, business and industry together produce the future strategy for the family business. Family plans will determine the family investment in the current business for growth as well as resource commitment to new opportunities. There are many variations in the competitive strategies that businesses employ, because each business’s strategic approach entails custom designed action for its own circumstances and industry environment [Thompson et al, 2005]. Effective strategies are creative (entrepreneurial) as they go against the grain of the past and combine ideas in a unique way to suit the current times.

Ward identifies the following as necessary considerations in family business planning:

- Family’s commitment to the company’s future;
- The family’s vision of its future structure;
- The relative attractiveness of the business environment;
- The relative strength of the business [1987:162].

Family business writers Carlock and Ward [2001] refer to a parallel planning process (PPP), which integrates planning the needs and expectations of the family and the business systems as they happen concurrently.
The PPP assumes that family and business systems are interdependent and that an action or event in either affects the other. Processes need to link the two systems. They propose that a new emphasis on ‘business family’ rather than ‘family business’ represents an important change in how family businesses view themselves. Five pivotal areas are identified which families need to address with regard to plans and policies regarding the family involvement in the business [see Figure 4.3].

Source: Carlock and Ward [2001]
These are:

- **Control**: Establishing a fair way in which the family will address decision making in the family, in management and ownership of the business. This would include issues of governance;
- **Careers**: Making it possible for various members of family to pursue careers or other roles in the business. This would include the issue of succession;
- **Capital**: Creating systems and agreements so that the family members can reinvest and if need be harvest or sell their investment without damage to the other family members interests;
- **Conflict**: Addressing the conflicts that business families face because their work and personal lives intersect so closely;
- **Culture**: Using family values in developing plans and actions. This represents enacted family values [Carlock and Ward, 2001].

**Figure 4.3 The Family Business Dilemma**

Source: Carlock and Ward [2001]
As is evident from Chapter four, numerous writers have advocated the process of family business strategic planning and the various steps that family businesses should follow. These include the formulation and the implementation stages of strategy. Researchers have concentrated on conceptualising strategic management issues in family businesses and provided a descriptive analysis of the status of planning [Tanewski et al., 1988; Bjuggren and Sund, 2001; Upton, Teal and Felan, 2001]. Both internal and external environments influence planning behaviour in businesses. Moreover, the internal structures and processes have an important influence on the development of strategies, in the way they are initiated and implemented and in the way in which the business responds to internal and external circumstances [Tanewski et al., 1988; Carlock and Ward, 2001; Friedman, 1998]. This indicates that internal functioning is strategic in nature. This is a key element in family businesses [Eisenhardt & Zbaracki, 1992; Cabrera-Suarez et al., 2001].

4.7 ENTREPRENEURSHIP AND FAMILY BUSINESS

The fields of family business and entrepreneurship consist of separate and distinct yet overlapping domains [Hoy and Verser, 1994]. The interaction of the two indicates how the influence of the family influences the entrepreneurial process [Craig and Lindsay, 2002]. There is potential for conflict where these two domains intersect. Kirby [2003], Timmons [1999], Schaper and Volery [2004] agree that entrepreneurship is important to business because of the value that is created, the innovations that are generated and the wealth that is produced as well as the additional employment created. Without entrepreneurship, businesses may fail to reach their full potential, may stagnate and even fail [Timmons, 1999].

Timmons, in his model [see Figure 4.4] emphasises the fact that there must be ‘collision between the academic theory and the real world of practice’ [2003:56]. He identifies three driving forces, which are, integrated, holistic
and controllable. These have the following characteristics, which dominate the highly dynamic entrepreneurial process:

- It is opportunity driven;
- It is driven by a lead entrepreneur and an entrepreneurial team;
- It is resource parsimonious and creative;
- It depends on the fit and balance among these;
- It is integrated and holistic [2003:56].

**Figure 4.4 The Timmons’ Model of the Entrepreneurial Process**

![Diagram of the Timmons' Model of the Entrepreneurial Process]

*Source: Timmons (2003: 57)*

Important in this model is the concept of fit and balance, where the team balances the resources and opportunities within a holistic approach.
Altering the level of any of these forces can change the balance and thus the risk reward equation [Timmons, 1999].

As most family businesses are perceived to be entrepreneurial by definition, Timmons’ model is relevant in the discussion of sustainable behaviour. Gersick et al. [1997] questions whether the role of the entrepreneur is compatible with that of family business leaders as entrepreneurs emphasise individualism, with a team building focus, whereas family leaders are group focussed and collaborative. This is in addition to family firms being characterised as introverted, burdened by old traditions and resistant to change [Kets de Vries, 1993; Gersick et al, 1997; Craig et al, 2002].

The analysis of Timmons’ model indicates that he ignores the dimension of family business in his entrepreneurial process. The team in the model can be equated to the family with the intangible capabilities of family businesses equated to resources and the loyalty and commitment factors also being taken into account. The family dynamic will influence the fit between the opportunity, the resources and the team [Craig et al, 2002] and may restrict the entrepreneurial activity of the family business if there is not good fit between the family and the driving forces that underlie the entrepreneurship process.

Craig et al’s [2002] research indicates that governance policies and processes, in particular the board, play a pivotal role in the strengthening of the fit as it reduces risk whilst enhancing success. This results in an adaptation of the Timmons’ model as well as the Craig and Lindsay model [2002] to accommodate the family, governance and strategic issues relating to family wine estates illustrated in Figure 4.5.
Figure 4.5 Strategic Entrepreneurship Model for Estate Family Wineries

Source: Researcher’s adaptation of the Timmons model [1999]
4.8 STRATEGIC ENTREPRENEURSHIP AND FAMILY BUSINESSES

One advantage of family business is that the inheritors know what they are doing. They don’t have to decide from scratch what business they are in [Heller, n.d]. However to grow the business successfully, imaginative awareness of trends is required – in the words of Hamal and Prahalad, ‘re-invent’ your industry and ‘regenerate’ your strategy [2001], in other words take an entirely different approach to the industry and the way you manage your business. Transforming a family business or beginning from scratch, requires the spotting of a key trend and adapting the business to satisfy the trend [Heller, nd].

4.9 MEASUREMENT OF PLANNING IMPLEMENTATION

An organisation’s measurement system strongly affects the behaviour of people both inside and outside the organisation. Companies must use measurement and management systems derived from their strategies and capabilities [Kaplan & Norton, 1996]. As mentioned previously, researchers have concentrated on conceptualising strategic management issues in family businesses and provided a descriptive analysis of the status of planning [Tanewski et al, 1988; Bjuggren and Sund, 2001; Upton, Teal and Felan, 2001], but minimal research has been done on the metrics to measure the implementation. It could be argued that successful succession is the measure of this, however as can be seen from the literature, there are many more aspects to family business other than succession.

The Balanced Scorecard is a performance measurement and management system using objectives and measures in four inter-related perspectives - financial, customer, internal processes and learning and growth. It is described as a strategic management and measurement system that measures performance and links strategic objectives to comprehensive indicators. It drives the success of the organisation forward by making the strategy visible and compelling throughout the whole organisation.
The use of strategic metrics, unambiguously defined, serves as a beacon to draw people toward the desired actions and performance. Kaplan and Norton [1990] introduced the model, as they believed that an exclusive reliance on financial measures in a management system would be insufficient for the 21st century. The Balanced Scorecard arose from their perceptions about two significant deficiencies in the implementation of corporate plans.

### 4.9.1 Management Gap

Most companies measure performance based on historical figures, for example ‘How are we doing compared to last year?’ This does not measure important aspects of future strategy, which must include the importance of customer loyalty, employee commitment and organisational learning, however, these might not be measured.

### 4.9.2 Strategy Gap

Strategic initiatives are often not integrated in the achievement of mission and vision statements and are often not measured.

Value creation has shifted from managing tangible assets to knowledge-based strategies that created and deployed an organisation’s tangible assets, including customer relationships, innovative products and services, high quality operating processes and the skills knowledge and motivation of its workforce. The Balanced Scorecard enables organisations to become more adaptive and responsive to the needs of both internal and external constituencies, resulting in greater opportunities for problem solving and innovation. It enables organisations to introduce new governance and process based on strategy not tactics. It converts an organisation’s value drivers into a series of defined metrics. Businesses record and analyse these metrics to determine if they are achieving strategic goals.
Four or five value drivers or broad strategic goals typically articulate strategy. In family businesses there will be strategic, family and business drivers.

4.9.3 The Balanced Scorecard

The Balanced Scorecard takes into account not only the traditional 'hard' financial measures, but also three additional categories of the 'soft' quantifiable operational measures. The focus is the creation of value through investment in customers, suppliers, employees, processes, technology and innovation. The Balanced Scorecard complements financial measures of past performance with measures of the drivers of future performance. Measurements taken across these four categories are seen to provide a rounded Balanced Scorecard that reflects organisational performance more accurately than traditional financial indicators and helps managers to focus on their mission. Goals need to be properly defined and measures must focus on the critical success factors of each goal. The scorecard allows the monitoring of present performance, but also tries to capture information about positioning to perform well in the future. Kaplan and Norton [1996] cite the following benefits of using the Balanced Scorecard:

- Focusing the whole organisation on the few key things needed to create breakthrough performance;
- Helping to integrate various corporate programmes;
- Breaking down strategic measures to roll into excellent performance overall.

4.10 COMPETITIVE FITNESS OF GLOBAL FIRMS FRAMEWORK

INSEAD have developed the Competitive Fitness of Global Firms initiative, which is a framework and assessment methodology to evaluate the
fundamental capabilities driving the success of the modern firm. The framework supports the thinking that a leadership gap results from the ability to measure intangible capabilities. The Competitive Fitness of Global Firms framework includes twelve fundamental capabilities: Mission and Vision, Customer orientation, Corporate Culture, Organisations and systems, Planning and Intelligence, Human Resources, Technical Resources, Innovation, Market Strategy, Marketing Operations, International and Performance [Larréché, 1998]. Competitive advantage in terms of capabilities is the ultimate form of competitive advantage. Beyond short-term results is strategy; beyond strategy are market-based capabilities [Laréché, 2002]. These capabilities apply to all businesses. Family business will have to consider the issues of family and business. The challenge is to deliver on all levels: results, strategy and market based capabilities, which requires investment in the soft values.

4.11 FAMILY BUSINESS METRICS

With the complex parallels of family business, the business issues on the one hand and the family issues on the other, a powerful measurement tool can be crafted through the unification of the Balanced Scorecard issues and the Competitive Fitness of Global Firms framework to measure the business side with the inclusion of the critical factors for family business and entrepreneurship into the metrics.

This approach will combine the performance targets for both family and business. This structured approach with metrics to measure both, will force family businesses to address both family and business issues in a balanced manner with one not suffering because of the other. This can have a measurable impact on the business by accelerating the implementation of change as well as alignment between the family and business issues [http://healthcare.isixsigma.com]. Intangible resources are more likely to contribute to a competitive advantage because they are socially complex and difficult for current and future rivals to understand and imitate. Family
businesses have the advantage of intangible resources because of the nature of family businesses.

4.12 CONCLUSION

Chapter Four gave an overview of the importance of strategic planning for business as well as family business. In addition, entrepreneurship was defined with the importance of the interface between strategy and entrepreneurship. It was concluded that both are important disciplines for business and their formulation and implementation need to be measured to determine their effectiveness.

The literature review reveals different models for family business strategic planning. These include the models of Ward [1987], Carlock and Ward [2001] which were discussed and illustrated. The emphasis of these models is that family and business planning are interrelated and should run concurrently.

Timmons’ Model of the Entrepreneurial process [Timmons, 2003] was introduced. This model emphasises the importance of the collision of the theory and the real world of practice.

The identification of the drivers of strategy and entrepreneurship and their interface have been discussed in Chapter four as they form the base for the link between the family estates and the wine industry and will serve as successful management indicators.

Chapter five will combine the findings of Chapters two, three and four; the literary review, highlighting the relevant key drivers in these three pertinent areas, in terms of this research.

These key drivers are combined with the Timmons Model for Entrepreneurship to create the Model to be tested in the empirical research.
CHAPTER FIVE

DRIVERS IDENTIFIED FROM THE LITERATURE

5.1 INTRODUCTION

Chapter five summarises the findings from the secondary research, the literature review, covered in Chapters two, three and four. This review concentrated on the three areas pertinent to the research objective i.e.: the wine industry, family business and strategic entrepreneurship. This summary will identify and explain the key drivers identified from the literature and their importance in terms of the research objective. These key drivers will culminate in the model on which the primary research will be based.

5.2 THE WINE INDUSTRY DRIVERS

Findings from the literature review in Chapter two indicate that the wine industry is an industry faced with much change. Specific to the South African wine industry have been the legislative changes since 1994 [Paragraph 2.7:50], which include the dissolving of the KWV [Paragraph 2.3:19], Black Economic Empowerment [Paragraph 2.7.3.7:55], Wine of Origin Legislature changes [Paragraph 2.7.3.1:53] and for the export of South African wines, the EU Legislation [Paragraph 2.4.6.1:37].

It is important to note that there are many sectors in the wine industry in terms of their classification of output. There are for example cooperatives, producing wholesalers, private cellars and estates, which compete in different sectors, at different price points and different qualities [Paragraph
The focus of this research was on the family estate winery [Paragraph 1.7:9]. The drivers of the industry should be relevant to all sectors, with some having more impact on different sectors than on others.

The historical review of the World of Wine emphasised the importance of the traditional values of wine [Paragraph 2.2:15]. This traditional value aspect is evident in both the Old and the New World wine producers and follows the history of wine production [Paragraph 2.4:23], coupled with strong branding, be it innovative in terms of the New World producers or traditional in terms of the Old World producers [Paragraph 2.5.1:42]. This relates to the intrinsic as well as the extrinsic aspects of wine, resulting in the first key driver being an innovative culture with responsive adaptation of resources, technology, skills, R&D, institutions and markets, all bundled in the traditional values of wine. This traditional value of wine is evident in the history of wine as well as in the future trend forecasts and focuses more on the quality sector than the quantity sector, where the most growth is predicted.

Changing patterns of consumption and lifestyle changes are highlighted in favour of wine consumption [Paragraph 2.4.1:30; Paragraph 2.4.3.1 & 2.4.3.2:33; Paragraph 2.5.1:41]. Consumers are predicted to be more vigilant with specific causes like healthy products and the positive effects of consuming red wine are in the industry’s favour. This of course has and will further affect the percentage of red/white varietals planted as well as attention being given to the treatment of the vineyards as well as the wine making process. This aspect of the industry is closely linked to the first key driver with regard to the use of resources, research and development, skills, technology and institutions. This results in the second key driver being the positioning as a lifestyle product - natural, healthy and environmentally friendly.

Globalisation has resulted in a highly fragmented market consolidating in some cases, to capitalise on the third key driver of economies of scale [Paragraph 2.4.8:40]. The premium sector needs to maintain an image of
exclusivity [Paragraph 2.4.8:40], however economies of scale are important regardless of the size of the winery. This leads to the next key driver being a value adding approach in terms of quality, production and branding [Paragraph 2.5.2:44].

Globalisation has also created the opportunity for the expansion of the consumer base on a national and global level. As indicated in Figure 2.8 [30], volume and value growth are predicted in the non-traditional wine drinking countries, which creates an opportunity for the expansion of the consumer base. In addition to this, the health benefits of red wine and the westernisation of lifestyles [Paragraph 2.7.1:51] will add to the consumer base. Highlighted in key driver one, was the use of technology. The Internet is a vehicle which can assist in this globalisation process. The fourth key driver is thus the expansion of the consumer base.

Complementary businesses can be seen as part of the value chain in terms of bottling plants, laboratories or as related businesses, particularly in terms of wine tourism as highlighted in the literature review [Paragraph 2.4.2:32]. Tourism encompasses a range of options from cellar tours, to bed and breakfasts, restaurants and amphitheatres. Not only does this generate added revenue, but also it is seen as a marketing tool as consumers get to taste the wines and meet the winemakers. This results in key driver five.

The non-traditional liquor outlets like supermarkets are becoming more dominant as buyers in the industry globally [Paragraph 2.4:23]. Supply of these outlets requires resource capacity, which results in the sixth key driver.

One of the contributing factors to the growth of the Australian Wine industry and the maintaining of the European Wine Industry has been support from Government in terms of Research and Development, trading agreements, labour costs, standards of production and taxation [Paragraph 2.4.6.1:37 &
This results in Government participation becoming the seventh driver.

Robert Mondavi [1998] is quoted as saying: ‘Part of globalisation is not to give the public just more of the same, but to give them wines that reflect the culture of the country, reflect the soil and the unique grape types of the country’. Wine has always been a local craft sold globally [Paragraph 2.5.1:42]. The last driver identified for the wine industry is one that relates to the whole industry – the unification of strategic intent excluding product differentiation and positioning. The formation of the South African Wine and Brandy Company, the Vision 2020 and WOSA [Paragraph 2.7.2.4:53] has been an attempt to build brand South Africa and direct strategic intent for the industry.

The drivers identified above can all be related to Timmons’ Model of the Entrepreneurial Process [Paragraph 4.8:107] in terms of the identification of opportunities and the utilisation and sourcing of resources.

5.3 FAMILY BUSINESS DRIVERS

Chapter three reviewed the literature on Family Business with regard to governance, conflict, life cycles and succession. The strategic management aspects relating to family businesses were reviewed in Chapter four. The following were identified from the literature in terms of being key drivers.

The overlapping of the family and the business systems creates areas of conflict [Paragraph 3.5:74]. The literature suggests that the focus should be on business family rather than family business and that the planning should run concurrently as the family and business systems are interdependent as illustrated in Figure 4.2 [Paragraph 4.7:105]. This parallel planning of business and family strategies and their effect on each other becomes the first key driver in this section.
Alleviation of the conflict, which arises when the two systems overlap, can be facilitated by the clear demarcation of roles and communication channels [Paragraph 3.5:74 – 76]. Role demarcation clarifies work responsibilities, which will differ from family responsibilities and also creates areas of accountability and responsibility. This second driver of role demarcation is very closely linked to the third, that of communication. Clear channels of communication and platforms for grievances control the emotional dimension evident of family businesses to a certain extent.

The cyclical processes that businesses, people and families go through require governance systems that accommodate the changes and manage the change [Paragraph 3.6:78]. The approach to governance can be a means [issues driven] or an ends [purpose driven] approach [Paragraph 3.4:70]. Effective governance encompasses a sense of direction, work values and well understood and accepted policies, which indicate how things should be done. This encompasses succession planning, strategic planning, communication, role demarcation, and in fact, all the issues that confront effective business family management [Paragraph 3.4:69; Paragraph 3.7:80].

These governance issues constitute the balance of the drivers for the family business section and are responsibilities shared by the family, management and the board [Paragraph 3.4:71].

### 5.4 STRATEGIC ENTREPRENEURSHIP DRIVERS

Strategic and entrepreneurship factors as well as the interface between the two were reviewed in Chapter four.

The literary review of this section, emphasizes that it is important that strategic and entrepreneurial actions are complementary [Paragraph 4.5:93]. This becomes the first key driver for this section. Entrepreneurship exploits opportunities whilst strategy establishes competitive advantage with them.
This is an ongoing process as the environment changes constantly as do the resources to exploit these changes. Intangible resources contribute to competitive advantage as they are socially complex and difficult to imitate [Paragraph 4.5:93]. Focus on these intangible capabilities, which are more evident in family businesses because of their unique nature is an important driver in this section [Paragraph 4.6:98].

The balance of the key drivers all stem from the first driver in that they either support the principles of entrepreneurship or strategic management. Innovation should be viewed as the base for strategic advantage, with opportunity and advantage as drivers. With these as focus areas, emphasis in the family business is on renewal, both in terms of the business approach as well as in terms of the governance of the business depending on the life cycle of the business, the family and the family members [Paragraph 3.6:78]. This promotes entrepreneurial alertness [Paragraph 4.4:91; Paragraph 4.8:107].

The last key driver in this section is one of the integral characteristics of entrepreneurial firms – team focus [Paragraph 4.8:108]. This relates to the key driver of clear demarcation of roles for family businesses, where the focus is on the team and their individual responsibilities.

5.5 THE MODEL

Figure 5.1 shows the linkages of the three areas of the literary review and their impact on the family estate winery.

Timmons’ Model of Entrepreneurship was identified in Chapter 4 [108] as a base for the entrepreneurial process. The key drivers identified in this Chapter, as depicted in Figure 5.1, have been incorporated into the Timmons’ Model to create Figure 5.2, which is the diagrammatic representation of these drivers and their interrelatedness. This model will be tested in the empirical study.
Figure 5.1 Linkages of the Three Drivers and their Impact on the Family Estate Winery

Family business

Family Business Wineries
(3rd generation plus)

Wine Industry

Strategic entrepreneurship model for estate family business wineries sustainability

Strategic Entrepreneurship Model for Estate Family Business Wineries Sustainability
Figure 5.2 Strategic Entrepreneurship Model for Estate Family Wineries

ENTREPRENEURIAL FOUNDER

Source: Researcher’s adaptation of the Timmons’model [1999]
5.6 CONCLUSION

The purpose of Chapter five was to summarise the contributions of the literary review in Chapters one to four to a strategic entrepreneurial model for family businesses in the estate winery business.

The model seeks to capture the main elements of the wine industry, family business and strategic entrepreneurship highlighted in the literature and their linkages. The model was based on the Timmons Model of the Entrepreneurial Process [Timmons, 2003].

- This integrated model follows the literary frameworks of the Wine Industry, Family Business and Strategic Entrepreneurship [identified in Chapters two, three and four];
- This integrated model emphasises the linkages between the three literature research areas and shows their interrelatedness [Figure 5.2];
- The model provides a logical framework for the development of the questionnaire for the primary research.
6.1 INTRODUCTION

The aim of Chapter six is to provide an overview of the different types of research approaches with defence of qualitative research as supported by the findings of amongst others Yin [2003] and Soy [1996].

The quality of research findings is directly related to the validity of the research methodology employed. A research design is the logic that links the data to be collected (and the conclusions to be drawn) to the initial questions of study [Yin, 2003].

The point of departure for this study will be the findings of existing research and models from family business literature, from which case study research combined with a questionnaire pertinent to the study can be developed in order to achieve the following research objective.

To develop a strategic entrepreneurial model to promote sustainable behaviour of family businesses in the South African estate wine industry.

The following sub problems must be solved in order to solve the main research problem:

1. The identification of a strategic entrepreneurial model for family businesses in the wine industry.

2. The evaluation of a selected family owned wineries against this model.
3. Providing guidelines to improve sustainable strategic entrepreneurial behaviour of family owned estate wineries.

The methodology used in this study is qualitative - a case study approach will be adopted for this research. Case study methodology is ideal when a holistic, in-depth investigation is needed. The case study method allows investigators to retain the holistic and meaningful characteristics of real life events, such as life cycles, organizational and managerial processes and the maturation of industries [Yin, 2003]. Case study research methodology is well suited to family business research since the object of the research is to study systems and policies in family businesses. The case study method helps make direct observations and collect data in natural settings, compared to relying on derived data [Babbie, 1991; Yin, 2003].

As indicated by Craig and Lindsay [2002] in their research on family businesses, it is important that a contextual view be taken. Factors such as family dynamics and context variables such as the type of market, all need to be taken into account. It is becoming more obvious that family businesses are not all the same and as a result, a case study approach is the most appropriate. Sharma [1997] points out that family businesses are not a homogenous group. He follows this thinking in saying that what works for one family in a situation will not necessarily work for another family in a different situation or even in a similar situation.

Family businesses typically develop traditions, values and customs over time that are reflected in their administration and business strategies [Santiago, 2000; Craig & Lindsay, 2002].

The areas of focus in this research will be strategic entrepreneurship and the family business, so events, conditions and their relationships and complexity will be researched. The questions are targeted to a number of conditions and their inter-relationships. The case study research method and empirical
focus of a multi-case study of family owned wineries in South Africa would identify the family specifics in relation to the theory.

An extensive literature review was conducted [Chapters 1-5]. A literature review is a means to an end and not the end itself [Cooper, 1984; Yin, 2003]. The purpose of the literature review is to develop sharper and more insightful questions into the topics under study.

6.2 IN DEFENSE OF QUALITATIVE RESEARCH

The decision whether to follow quantitative hypothesis testing or to follow the interpretative social science approach of qualitative analysis was resolved by applying the usefulness of the outcomes to the problem under consideration.

A key strength of the case study method involves using multiple sources and techniques in the data gathering process.

According to Stake [1995], following a case study approach is not a choice of methodology, but rather the selection of an object of study. Babbie [1991:285] comments that ‘if you want to know about something, why not just go where it is happening and watch it happen?’ Case study research excels at bringing an understanding of a complex issue or object and can extend experience to what is already known through previous research. Soy [1997] comments that case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. Case studies can include many different types of data. Quantitative, qualitative and historical data can be used for analysis. This results in a methodological approach where a combination of sources and types of data can be used to describe, analyse and evaluate interactions within a particular context. The case study approach is a research strategy, which focuses on understanding the dynamics present within single settings, used to accomplish various aims: to provide description, test theory or generate theory [Cano; 2003:2; Eisenhardt; 2002:1].
Yin [1994] and Eisenhardt [2002] agree on six sources for data collection:

- Documentation (letters, agenda, written reports, etc);
- Archival records (administrative records, personal records, etc);
- Interviews;
- Direct observations;
- Participant observation;
- Physical artefacts.

The data collection technique for this research is document analysis combined with personal interviews. Documentary information is relevant to every case study topic. The most important use of documents is to corroborate and augment evidence from other sources [Yin, 2003]. Interviews are also essential sources of case study information. The interviews are guided conversations rather than structured queries and as a result the interview process follows a consistent line of query fluidly rather than rigidly [Yin, 2003].

Multiple sources of evidence lead to an important element of data analysis in case study research. Case study research is not sampling research. The unit of analysis is a critical factor in the case study. Case studies tend to focus on one or two issues that are fundamental to understanding the system (in this case the family owned estate winery) being examined.

Family owned estate wineries will be selected that provide the greatest potential for analysis of multi generation ownership, covering the areas of family business focus of succession planning, governance and the influence of owner life cycles as well as strategic and entrepreneurship issues. The study is of an exploratory nature in that it seeks to explain the factors that have contributed to the survival of these family owned wineries through successive generations. Similar methodology has been used in research.
on family businesses relating to different sectors and with a different focus [Craig & Lindsay, 2002; Santiago, 2000].

The research process will proceed as follows:
Collection of data will focus on the following areas as these have been identified in the literature review as areas of pertinence to strategy, entrepreneurship and family businesses. As the research participants are in the wine industry, the data will obviously have reference to this industry:

- Governance;
- Policies and procedures;
- Business vision;
- Leadership;
- Strategy;
- Family values;
- Family vision;
- Family commitment;
- Policies on governance and family constitution;
- Family succession and continuity plan;
- Succession experience/success;
- Strategic Entrepreneurial tendencies;
- Family boards.

The depth and descriptiveness of the data obtained from this analysis would be lost if a quantitative analysis was done. Qualitative analysis will provide a greater insight and broader version of the theory than a mere relationship of variables.

6.3 DEFINITIONS OF THE CASE STUDY METHOD

Mitchell [1983:192] defines this form of research as follows:
‘We may characterize a case study as a detailed examination of an event (or related series of events) which the analyst believes (or exhibit) the operation of some identified general theoretical principle. A case study is essentially heuristic; it reflects in the events portrayed features which may be construed as a manifestation of some general abstract theoretical principle’.

Strauss [1987:218] sees the case study researcher as being focused on analytical abstractions for purposes of presenting theory at some level or other.

### 6.4 CHARACTERISTICS OF CASE STUDY RESEARCH

The most distinguishing characteristic of a case study is that it attempts to examine a contemporary phenomenon in its real-life context [Yin, 1981:59]. Yin [2003] continues in that case studies are generalisable to theoretical propositions and not populations. The goal is to expand and generalise theory not to enumerate statistical frequencies. Yin [1989] and Stake [1994] agree that case studies are the preferred strategy when ‘how’ and ‘why’ questions are being posed, when the investigator has little control over events and when the focus is on a contemporary phenomenon within some real life context. Case studies tend to be selective, focusing on one or two issues that are fundamental to understanding the system being examined [Tellis, 1997]. Tellis continues in stating that case studies are multi-perspectival analyses. In other words, the researcher considers not only the voice and perspective of the actors, but also of the relevant groups of actors and the interaction between them.

Case study research is known as triangulated research strategy. Triangulation can occur with data, investigators, theories and methodologies [Feagin, Orum & Sjoberg: 1991; Yin: 1984]. The need for triangulation is to confirm the validity of the processes. In this study, triangulation will be achieved by using multiple sources of data to ensure construct validity [Yin, 1984; Levy, 1988].
There are four types of triangulation as identified by Denzin [1984] and Tellis [1997]: data source triangulation, when the researcher looks for data to remain the same in different contexts; investigator triangulation, when several investigators examine the same phenomenon; theory triangulation when investigators with different viewpoints interpret the same results; and methodological triangulation, when one approach is followed by another to increase the confidence in the interpretation. Triangulation increases the reliability of the data and the process of gathering it. It serves to corroborate the data gathered from other sources.

Case studies are only valid if based on an articulated theory. The validity of case study analysis depends upon the adequacy of the underlying theory and literature study. The theoretical framework needs to state the conditions under which a particular phenomenon will generally be found and the conditions when it is not likely to be found. In qualitative research, a unit of analysis is chosen because the researcher believes that it exhibits or tests some identified general theoretical principle. It is not chosen by means of random sampling or some other sampling method, which ensures that there is no bias in the sample selection process.

In researching family business, the study focuses on informal and unstructured linkages and processes as well as formal and structured linkages and processes in family businesses and qualitative research is the suggested methodology for this type of research [Stake, 1995; Yin, 1989]. The primary objective is not to generalize from a sample to a larger population [Yin, 1989:21], but to provide analytical evidence about the empirical validity of the underlying theory, by matching case evidence back to theory. The nature of the explanations in a case study depends on logical/causal connections. In this regard, Mitchell [1983:207] notes:

‘In case studies, statistical inference is not invoked at all. Instead the inferential process turns exclusively on the theoretically necessary linkages among the features in the case study. The validity of the extrapolation
depends not only on the typicality or representativeness of the case but upon the cogency of the theoretical reasoning.'

Yin [1989:38] states: ‘A fatal flaw in doing case studies is to conceive of statistical generalization as the method of generalizing the results of the case. Case studies, like experiments, are generalizable to theoretical propositions and not to populations and the investigator’s goal is to expand and generalize theories (analytical generalization) and not to enumerate frequencies (statistical generalization).’

The classical case study would be the use of qualitative data to describe a single setting (in this research – one family owned estate winery). Such a study would typically emphasize in depth description. The single case study method is an appropriate design under several circumstances [Yin, 1991]. One rationale is when it represents an extreme or unique case. A second rationale is when the case represents a critical setting for testing a well-formulated theory. The third rationale is when a situation exists whereby an investigator has an opportunity to observe and analyse a phenomenon previously inaccessible to scientific investigation [Yin, 1991: 48]. The case presented in this research is an example of the third rationale, where the theory has specified a clear set of propositions as well as the circumstances within which the propositions are believed to be true. In this instance, the case is used to confirm and extend the theories of family business. (It would provide a weak basis for generalization to other settings). This lack of generalisability is the main disadvantage of the case study method.

According to Yin [1989:52] a study containing more than a single case is a multiple case study. Efforts to overcome this weakness resulted in the design of a new form of case study research namely the multiple-case study (also called the multi-site study), which strengthened the researcher’s ability to generalize while preserving in-depth description [Feagin, Orum & Sjoberg, 1991; Savage, 1998]. The evidence from this form of case study is more compelling than a single case study and the overall study is therefore regarded as being more robust [Yin 1989:52].
The multiple case study approach is employed in this study.

Herriot and Firestone [1983] define multi case studies as follows:

‘These multi-site qualitative studies address the same research question in a number of settings using similar data collection and analysis procedures in each setting. They consciously seek to permit cross-site comparison without necessarily sacrificing within-site understanding.’

Yin [1989] draws an important analogy regarding the multiple-case study approach:

‘Multiple case studies, in this sense, should be considered like multiple experiments. Under these circumstances a previously developed theory is used as a template with which to compare the empirical results of the case study. If two or more cases are shown to support the same theory, replication may be claimed.’

Yin notes that replication logic and not a sampling logic should be followed [1989:53]. The replication process is described as follows:

Each case must be carefully selected so that it either (a) predicts similar results (a literal replication) or (b) produces contrary results but for predictable reasons (a theoretical replication). Thus, the ability to conduct six or ten case studies, arranged effectively within multiple-case design, is analogous to the ability to conduct six to ten experiments on related topics. If all the cases turn out as predicted, these six to ten case studies, in the aggregate, would have provided compelling support for the initial set of propositions. If cases are in some way contradictory, the initial propositions must be revised and retested with another set of cases. Again, this logic is similar to the way scientists deal with contradictory experimental findings.
6.5 DATA COLLECTION AND ANALYSIS

For case studies, five components of a research design are especially important:

- A study’s questions:
  - The case study research approach is most appropriate for ‘how’ and ‘why’ questions.

- Its propositions, if any:
  - Propositions direct attention to something that should be examined within the scope of the study [Yin, 2003].

- Its units of analysis:
  - The units of analysis relate to the problem of defining what the case is [Yin, 2003], in other words, what is the primary unit of analysis. Once the unit of analysis has been defined, the persons to be included in the case study must be defined.

- The logic linking the data to the propositions:
  - Pattern matching and explanation building are a recommended way for linking data to propositions, where several pieces of information may be related to some theoretical proposition [Yin, 2003]. If patterns coincide, internal validity is strengthened. With explanation building, the result will be a number of iterations.

- The criteria for interpreting the findings:
  - The question raised for matching results, is how close does a match have to be to be considered a match?

6.6 VALIDITY AND RELIABILITY

According to the Oxford Dictionary [1976], validity and reliability are defined as being ‘sound, defensible and well grounded’ and being ‘of sound and
consistent character or quality’. Leedy [1997] states that reliability and
validity are encountered frequently in research methodology and are
concerned with the measuring instrument and contribute to the integrity of
the research.

These two criteria confront all researchers and need to be taken into
account in the research design.

6.6.1 Validity

Validity is concerned with the soundness and effectiveness of the measuring
instrument [Leedy, 1997]. It must be ensured throughout the design process
that the study is well constructed to ensure construct validity, internal validity
and reliability. Construct validity requires the use of correct measures for
the concepts being studied. Yin recommends that this be done so that as
one moves from one part of the case to the other, there is clear cross-
referencing to methodological procedures and to the resulting evidence [Yin,
1989:102-103].

A chain of forward and backward evidence must be established. Internal
validity demonstrates that certain conditions lead to other conditions. This
requires multiple pieces of evidence from multiple sources to uncover
convergent lines of inquiry. A causal relationship must be established where
certain conditions are shown to lead to other conditions. Yin recommends
the following research tactics for achieving this: pattern matching,
 explanation building and time series analysis. These all form part of the
specified data analysis procedures. External validity indicates whether
findings are generalisable beyond the immediate case.

Techniques such as cross-examination and within-case examination
together with literature reviews, help ensure external validity. Case study
design ensures that the procedures are well documented and can be
repeated with the same results again and again.
The following questions need to be asked:

- Does the result offer a watertight, logical interpretation of the data?
- Will the same approach and methods, used by different researchers doing the same study over again, produce the same results?

For the issue of validity, the following case study tactics will be adopted to improve validity:

6.6.1.1 Construct validity

This means establishing correct operational measures for the concepts being studied. Yin recommends the establishment of a chain of analysis i.e.: as one moves from one portion of the case to another, there must be clear cross-referencing to methodological procedures and to the resulting evidence [Yin, 1989].

6.6.1.2 Internal validity

A causal relationship must be established, where certain conditions are shown to lead to other conditions, as distinguished from spurious relationships [Savage, 1998]. The tactics identified by Yin for achieving this are pattern matching, explanation building and time series analysis procedures.

6.6.1.3 External validity

To achieve this, domain must be established to which the findings of the study can be generalized. This is already implicit in the multi-case study method, where replication logic is used.

6.6.2 Reliability

Reliability is the consistency with which the measuring instrument performs [Leedy, 1997]. Yin [2003] reports that in the past, case study procedures
have been poorly documented making the reliability of the research suspicious. The use of a case study protocol, in this case the replication logic of the Model Building approach illustrated in Figure 7.1 deals with the problem of documentation reliability. The other issue of reliability as highlighted by Riley et al. [2000] is whether the measuring instrument, in this case the questionnaire, measures what it was intended to measure. Reliability can be improved by conducting exploratory research in the field of interest or by validating the measuring instrument by pre-testing it. In this study, a comprehensive literature review was conducted in the relevant fields [Chapters 2, 3 and 4] and a pilot study was conducted amongst academics and people in the wine industry to test the questionnaire and its appropriateness for this study.

6.7 PROFILE OF ESTATE FAMILY WINERIES APPROACHED

In the selection of participants the purpose of the research must always be referred to in order to focus attention on where to look for cases and evidence that will satisfy the purpose of the study and answer the research questions posed. As stated earlier in this Chapter [Yin, 2003], case studies are generalisable to theoretical propositions and not populations. The goal is to expand and generalise theory not to enumerate statistical frequencies, hence the selection of participants.

The following multi-generational family estate wineries were approached for the purpose of this research because they had at least passed through second-generation succession. The relevance of this is that processes and policies can be assessed in terms of lessons learnt in order to reach the research objective. As indicated in Chapter one, there are 43 family wineries registered for estate wine production in South Africa. Of these, the following 22 complied with the research definition, in that the winery had been passed on through more than two generations and was registered as an estate producer and were thus approached to participate in this research.
These selection criteria ensure validity and reliability as defined in this Chapter as well as the issue of bias.

6.7.1 ALLESVERLOREN

SWARTLAND
ESTABLISHED: 1704
WINE MAKER: DANIE MALAN
OWNERS: DANIE AND FANIE MALAN
GENERATION OF OWNERSHIP: 5TH GENERATION
AREA UNDER VINE: 187 HA
PRODUCTION (9 LITRE CASES): 50 000

6.7.2 ALTYDGEDACHT

DURBANVILLE
ESTABLISHED: 1698
WINE MAKER: OLIVER PARKER
OWNERS: PARKER FAMILY
GENERATION OF OWNERSHIP: 5TH GENERATION
AREA UNDER VINE: 158 HA
PRODUCTION (9 LITRE CASES): 5 000

6.7.3 BELLVUE

 STELLENBOSCH
ESTABLISHED: 1701
WINE MAKER: WILHELM Kritzinger
OWNER: DIRKIE MORKEL
GENERATION OF OWNERSHIP: 4TH GENERATION
AREA UNDER VINE: 193 HA
PRODUCTION (9 LITRE CASES): 13000
6.7.4 BERGSIG

WORCESTER
ESTABLISHED: 1843
WINE MAKER: DE WET LATEGAN
OWNERS: LATEGAN FAMILY
GENERATION OF OWNERSHIP: 5TH GENERATION
AREA UNDER VINE: 253 HA
PRODUCTION (9 LITRE CASES): 50 000

6.7.5 DEETLEFS ESTATE

RAWSONVILE (WORCESTER)
ESTABLISHED: 1822
WINEMAKER: WILLIE STOFBERG
OWNERS: KOBUS DEETLEF
GENERATION OF OWNERSHIP: 6TH GENERATION
AREA UNDER VINE: 100HA
PRODUCTION (9 LITRE CASES): N/A

6.7.6 DE WAAL WINES

STELLENBOSCH
ESTABLISHED: 1682
WINE MAKER: CHRIS DE WAAL & DANIEL DE WAAL
OWNERS: DE WAAL BROTHERS
GENERATION OF OWNERSHIP: 5TH GENERATION
AREA UNDER VINE: 120 HA
PRODUCTION (9 LITRE CASES): 20 000
6.7.7 DIEMERSDAL ESTATE

DURBANVILLE
ESTABLISHED: 1698
WINE MAKER: JOHAN KRUGER
OWNER: TIENIE LOUW
GENERATION OF OWNERSHIP: 4th GENERATION
AREA UNDER VINE: 172 HA
PRODUCTION (9 LITRE CASES): 15 000

6.7.8 DE ZOETE INVAL

PAARL
ESTABLISHED: 1878
WINE MAKERS: JOHN ROBERT FRATER & GERARD FRATER
OWNERS: AR FRATER TRUST
GENERATION OF OWNERSHIP: 5th GENERATION
AREA UNDER VINE: 20 HA
PRODUCTION (9 LITRE CASES): 5000

6.7.9 EXCELSIOR

ROBERTSON
ESTABLISHED: 1859
WINEMAKER: JOHAN STEMMET
OWNERS: STEPHEN & FREDDIE DE WET
GENERATION OF OWNERSHIP: 4TH GENERATION
AREA UNDER VINE: 270 HA
PRODUCTION (9 LITRE CASES): 60 000
6.7.10 LANDSKROON

PAARL
ESTABLISHED: 1874
WINEMAKERS: PAUL DE VILLIERS
OWNER: STEPHAN & PAUL DE VILLIERS
GENERATION OF OWNERSHIP: 5TH GENERATION
AREA UNDER VINE: 270 HA
PRODUCTION (9 LITRE CASES): 60 000

6.7.11 MIDDLEVLEI

 STELENBOSCH
ESTABLISHED: 1919
WINEMAKERS: TIENIE MOMBERG
OWNER: MOMBERG FAMILY
GENERATION OF OWNERSHIP: 3RD GENERATION
AREA UNDER VINE: 130 HA
PRODUCTION (9 LITRE CASES): 27 000

6.7.12 OVERGAAUW

 STELENBOSCH
ESTABLISHED: 1905
WINEMAKER: CHRIS JOUBERT AND DAVID VAN VELDEN JR
OWNERS: BRAAM VAN VELDEN
GENERATION OF OWNERSHIP: 4TH AND 5TH GENERATION
AREA UNDER VINE: 75 HA
PRODUCTION (9 LITRE CASES): 17 000
6.7.13 OPSTAL

WORCESTER
WINEMAKERS: STANLEY LOUW
OWNER: LOUW FAMILY
GENERATION OF OWNERSHIP: 3RD GENERATION
AREA UNDER VINE: 103 HA
PRODUCTION (9 LITRE CASES): 10 000

6.7.14 PAUL CLUVER

ELGIN/OVERBERG
ESTABLISHED: 1859
WINEMAKERS: ANDRIES BURGER
OWNER: CLUVER FAMILY
GENERATION OF OWNERSHIP: 3RD GENERATION
AREA UNDER VINE: 100 HA
PRODUCTION (9 LITRE CASES): 20 000

6.7.15 REYNEKE WINES

STELLENBOSCH
ESTABLISHED: 1863
WINE MAKERS: JOHAN REYNEKE AND GEORGE MEISSNER
OWNERS: REYNEKE FAMILY
GENERATION OF OWNERSHIP: 4TH GENERATION
AREA UNDER VINE: 20 HA
PRODUCTION (9 LITRE CASES): 1 500
6.7.16 RIETVALLEI

ROBERSON
ESTABLISHED: 1717
WINEMAKERS: JOHNNY BURGER
OWNER: JOHNNY BURGER
GENERATION OF OWNERSHIP: 5TH GENERATION
AREA UNDER VINE: 150 HA
PRODUCTION (9 LITRE CASES): 10 000

6.7.17 RUITERSVLEI

PAARL
ESTABLISHED: 1692
WINEMAKERS: HEIN HESEBECK
OWNER: FAURE FAMILY
GENERATION OF OWNERSHIP: 4TH GENERATION
AREA UNDER VINE: 320 HA
PRODUCTION (9 LITRE CASES): 60 000

6.7.18 RUST EN VREDE

STELLENBOSCH
ESTABLISHED: 1694
WINEMAKER: LOUIS STRYDOM & ETTIENNE MALAN
OWNER: ENGELBRECHT TRUST
GENERATION OF OWNERSHIP: 3RD GENERATION
AREA UNDER VINE: 50 HA
PRODUCTION (9 LITRE CASES): 15 000
6.7.19  THEUNISKRAAL

TULBAGH
ESTABLISHED: 1705
WINEMAKER: ANDRIES JORDAAN
OWNER: RENNIE & KOBUS JORDAAN
GENERATION OF OWNERSHIP: 3RD GENERATION
AREA UNDER VINE: 140 HA
PRODUCTION (9 LITRE CASES): 35 000

6.7.20  VERGENOEGD ESTATE

STELLENBOSCH
ESTABLISHED: 1773
WINEMAKER: JOHN FAURE
OWNERS: JOHN FAURE FAMILY TRUST AND STRAUSS FAMILY
GENERATION OF OWNERSHIP: 6TH GENERATION
AREA UNDER VINE: 90 HA
PRODUCTION: (9 LITRE CASES): 10 000

6.7.21  WELTEVREDE ESTATE

ROBERTSON
ESTABLISHED: 1912
WINEMAKER: PHILIP JONKER
OWNERS: LOURENS JONKER
GENERATION OF OWNERSHIP: 4TH GENERATION
AREA UNDER VINE: 100 HA
PRODUCTION (9 LITRE CASES): 25 000
6.7.22 WELVANPAS

WELLINGTON
ESTABLISHED
WINEMAKERS: DAN RETIEF JNR
OWNER: RETIEF FAMILY
GENERATION OF OWNERSHIP:
AREA UNDER VINE: 60HA
PRODUCTION (9 LITRE CASES): 1000


6.8 CONCLUSION

This chapter dealt with the research methodology. The grounds for using qualitative research as opposed to quantitative research were indicated. The case study method was defined. The multi-case study method, and its characteristics, was expounded. The issues of validity and reliability were dealt with.

The preliminary selection of family estate wineries in South Africa was done. These multi-generational family wineries (3rd generation or more) were selected as case studies that will satisfy the purpose of the research.

In terms of this study, the main findings are as follows:

- Qualitative research in the form of a multiple case study method is valid for the purpose of this research study;
- The data collection and analysis components of case study research were identified;
- The validity of case study research needs to be validated by construct validity, internal validity and external validity;
• The reliability of case study research needs to be validated through pattern matching and explanation building;
• There are 22 family business estate wineries, which can be included in this research study in accordance with the selection criteria.

Chapter seven will deal with the Research Methodology – plotting the research process.
CHAPTER SEVEN

RESEARCH METHODOLOGY

7.1 INTRODUCTION

In Chapter five, a model identifying the drivers to promote the sustainability of family estate wineries, based on the literature findings in Chapters two, three and four, was developed.

The aim of Chapter seven is to discuss the research process used during the empirical study to test the drivers of this model as well as a detailed profile of the research participants.

7.2 RESEARCH FRAMEWORK

In this research, the researcher reviewed the strategic entrepreneurial practices of family owned estate wineries in the Western Cape, which had been passed on to at least the third generation. The process included family business issues, business issues, strategic issues relating to both the family and the business and the wine industry, as well as entrepreneurship issues. This was done in the context of the SA and global wine industry.

The product of this research is an attempt to develop a model indicating the key drivers to promote successful sustainability in this sector. The nature of the research was exploratory where the objective aimed to examine the factors that contributed to the sustainability of the family business winery from a wine industry perspective, family business perspective and a strategic entrepreneurship perspective, resulting in the problem statement posed by the researcher:
To develop a strategic entrepreneurial model to promote sustainability of family businesses in the South African estate wine industry.

In addressing the problem, the objectives of the empirical investigation were:

- The identification of a strategic entrepreneurial model for the wine industry;
- The evaluation of a selected family owned estate wineries against this model;
- Providing guidelines to improve strategic entrepreneurial behaviour for family owned estate wineries.

7.3 RESEARCH DESIGN

This study used the case method to obtain the information. This method of research recognises the absence of a database of family businesses in the South African wine sector as well as the hesitation of family business owners to participate in surveys [Santiago, 2000]. In addition, according to research done by Santiago [2000] in this field of family business, family owners tend to participate in personal interviews more readily than responding to a survey.

The use of personal interviews allows for a level of trust to develop as well as achieving the depth of information required in this kind of study as the case study method has a greater chance of soliciting insights from a family business.

The amount of information divulged during an interview is a function of how comfortable the family business owner is with the researcher and how comfortable the family business owner is with the discretionary ability of the researcher to keep sensitive information anonymous [Santiago, 2000]. The case study method also creates an opportunity for the researcher to observe and analyse a phenomenon previously inaccessible to scientific
investigation’ [Yin, 48]. The case studies are used to confirm and extend the theory presented.

7.4 INSTRUMENTATION

To increase the reliability of information gathered and the in-depthness of the study, the researcher used multiple sources of evidence – both primary data (directly sourced from the families), and secondary data in terms of interviews with experts in the wine industry as well as other written information on the family businesses. Yin [1994] refers to this as a process of triangulation, whereby evidence is corroborated and augmented.

Primary data came from interviews with the current generation managing the business as well as the incoming generation where possible. Secondary data came from interviews with wine industry experts as well as researching the limited written data available on family wineries in South Africa. These were in the form of Cape Wine Masters’ dissertations [Howard, 1983] as well as information from industry publications, as well as any printed information the wineries have in terms of their history and achievements.

The researcher was the sole interviewer for this study. The decision not to use an assistant was based on the researcher’s knowledge of family business, strategy, entrepreneurship and the wine industry, which would enhance the evaluation of insights. Handler [1989] confirms that entry into an organisation is easier for a sole interviewer than a team.

7.5 RESEARCH PROCEDURE

Only existing estate family wineries that have successfully passed on to the third generation or have third generation family members involved in the business were approached. The family business also had to comply with
the definition of family business in terms of ownership and be registered as an estate winery with the Cape Wine and Spirits Institute (CWSI).

Based on the findings of Yin [1994] and Santiago [2000], the study used a model-building approach, which is illustrated in Figure 7.1.

**Figure 7.1 Model Building Approach: Case Study Method used by the Cosmos Corporation.**

A model building approach ensures a logical approach to the research. The initial step in designing the study must consist of theory development, which was done in Chapters two, three and four, which covered a literary review on the wine industry, family business and strategic entrepreneurship. The modelling approach also enforces the definition of specific measures in the design and data collection process. According to Yin [2003:50], each individual case consists of a whole study, in which convergent evidence is sought regarding the facts and conclusions for each case. Each case's
conclusions are then considered to be the conformation needing replication by other individual cases’.

An important part of the modelling approach is the feedback loop that ensures that the research procedure is a collaborative whole, referring to the theory development, which affects the collection of data as well as the analysis of the data, which in turn either confirms, adds to or negates the theory or allows for the reconsideration of one of the theoretical proposals. This could allow for redesign, which would ensure that data is not distorted to accommodate the original design.

7.5.1 The questionnaire

The questionnaire is a common instrument for observing data [Leedy, 1997:191]. Riley et al. [1999:96] name the following key issues pertaining to question design:

- Use simple and concise language;
- Do not make unrealistic demands on those who complete the questionnaire;
- Ask only about one topic;
- Have no ‘escape route’ for example, don’t know, no comment;
- Use polite language;
- Ensure each question is straightforward and guard against ambiguity;
- Order the questions correctly;
- Make the layout easy to follow;
- Give clear instructions;
- Test the questionnaire first.
7.5.2 Testing the questionnaire

To test the validity of the questionnaire, a Doctor of Statistics, the researcher’s promoter as well as wine industry experts, critically reviewed it.

7.5.3 Layout and contents of the questionnaire

A 60 item questionnaire based on the literature review of the wine industry, family businesses and strategic entrepreneurship guided the interviews. The questionnaire was used as a guideline and this point was highlighted in the introduction to the questionnaire. Family business was defined in section A in terms of this research. This was to ensure that the participant complied with the definition. The generation managing the business was also questioned to ensure that the family business complied with the research objective.

Section B covered issues of the family business history, background as well as the growth of the family business. Section C discussed family structures and relationships. Section D related to business structures and relationships. This included family member responsibilities, management style, the influence of family structures and values on the business, decision making, conflict resolution as well as the issue of personal, family and business strategy.

Section E addressed the issues of governance, highlighting succession management, governance policies and procedures as well as governance issues relating to finance. Section F introduced the theme of strategic entrepreneurship, questioning issues like ‘newness’, incentives, business focus, internal capabilities, opportunity recognition and innovation. Section G covered the wine industry issues in terms of the critical business challenges facing the industry and plans to overcome them, locally and globally. The Vision 2020 for the South African wine industry was discussed.
Section H was a general section covering advice for other family businesses in terms of lessons learnt regarding leadership transition and general family business issues. Each interviewee was asked to describe successes in terms of the running of their business to promote sustainability from an entrepreneurial and family business aspect.

The interview guide appears in Appendix A.

The questionnaire was e-mailed to the families prior to the interview, to determine whether they complied with the definition as well as the generational transfer prerequisite. Twenty two estate family wineries were approached of which ten agreed to be interviewed, however, it was discovered during the interview process, that although some of them market themselves as family businesses, that they in actual fact are not. The balance of the estate family wineries refused to be interviewed because of family business issues that were currently causing the family business to be sold or divided. From the ten families, twenty three people were interviewed, all having an interest in the running of the business. This represents 45 percent of the family estate wineries that complied with the research definition. The current leaders of the family businesses were interviewed in every case. The in-depth interviews were semi-structured in nature.

The interviews took anywhere from 45 minutes to three and a half hours depending on the relevance of the question for the family and their willingness to respond.
7.6 DOCUMENTATION PROCESS

All interviews were recorded to ease reporting. The interviewer took notes that were transcribed at the end of the day. Although the information collected was taken from the family itself, where possible, this was corroborated with secondary sources as well. Follow up was done with some families on issues that needed clarity after the transcribing was done.

7.7 ANALYTICAL PROCEDURE

The analytical procedure consists of examining, categorising, tabulating and testing and recombining both quantitative and qualitative evidence to address the initial problem statement [Yin, 2003; Haigh, 2003; Eisenhardt, 2002]. With case study analysis, it is essential that the general analytical strategy is determined as part of the approach to the research so that evidence can be treated fairly and that compelling conclusions result [Yin, 2003; Eisenhardt, 2002; Soy, 1996]. Much of the analysis relied on dissecting each individual case and comparing it with other cases to establish a pattern in terms of key drivers that have enhanced multi-generational success, not only in terms of family issues, but also in terms of strategic entrepreneurship issues and wine issues.

Each case study must be treated as a whole study, after which conclusions are considered for replication by other case study conclusions. These were compared to detect a pattern.

7.8 CASE PARTICIPANT PROFILES

This section looks at the participant profiles individually, with findings and general observations being drawn later. Patterned after the Gersick, Davis, Hampton and Langsberg [1997] and the Santiago [2000] research the following presents the current profiles of the research participants.
**Case one F.W.1 (Landskroon)**

**Ownership stage** - 5\textsuperscript{th} generation- the farm is owned by the family trusts of the late Paul snr and Hugo de Villiers. All decisions are made by the family.

**Family stage** - working together- Hugo snr oversees the business, whilst Paul jnr, his nephew, is Managing Director and Chief winemaker. Hugo jnr is in charge of vineyards and general farm operations, whilst Madelief looks after finance and creditors and Huguette runs Debtors, South African marketing and promotions.

**Business stage** - expansion/formalisation; investment has been made in the vineyards as well as in the production facilities.

**LANDSKROON: BACKGROUND**

Records published in 1860 in the Netherlands, by Professor Noble, record the flight of the De Villiers brothers. It describes how the father Pierre advised his sons to flee once it became evident that the Roman Catholic soldiers would be visiting their farm. One brother Paul, turned back as he became homesick, however the other three, Pierre, Abraham and Jacques arrived in South Africa on 6\textsuperscript{th} May 1689. First, they travelled from their home La Rochelle in France to Holland and then their journey to the Cape took seventeen weeks. The Chamber of Delft, in a letter dated 1688, commended the three brothers to Simon van der Stel, the Governor of the Cape’s care, as men with sound knowledge of viticulture and persons who could be useful in promoting the wine industry in the Cape. The De Villiers started making wine on their arrival in the Cape, but the farm Landskroon has been in the family since 1874.

The De Villiers family of Landskroon descends from Jacques. Jacques was a winemaker in Niort, before coming to South Africa. The current wine maker at Landskroon, Paul Jnr, is the 5th Paul to farm the present property, but the 9\textsuperscript{th} generation. Hugo Snr, his uncle (Paul the 4\textsuperscript{th}’s brother), manages
the family business. Today Landskroon is jointly owned by Family Trusts. The De Villiers family of Landskroon have been making wine in South Africa for three centuries.

Landskroon sold most of its wine to the KWV, but it became an estate in 1973 and now bottles under its own label. Port is a speciality of Landskroon.

Quality is what Landskroon winemakers believe in. They believe that the wine making process should be kept as natural as possible.

**Case two- F.W 2 (Overgaauw)**

**Ownership stage** - fourth generation Sibling partnership: board composed of third and fourth generation blood family members.

**Family stage** - working together. Braam van Velden oversees the business and his son, David works in the business with him.

**OVERGAAUW: BACKGROUND**

The Van Veldens of Overgaauw are of Dutch descent, with a wine interest that developed in South Africa. Overgaauw was originally part of By den Weg which was granted to Hendrik Ebertz in 1704 by Governor Simon van der Stel. In 1784, Daniel Joubert bought the farm and his family farmed By den Weg for five generations. Willem Joubert, the maternal grandfather of Abraham Hulius van Velden, bought a portion of the farm in 1906 and named it Overgaauw. Three years later he built a homestead and a cellar. David van Velden worked for his father Abraham until 1945 when he took over the farm and planted some classic varietals. After obtaining a B. Com. at the University of Stellenbosch, Braam (jr) left for Germany and studied oenology and viticulture at Geisenheim. On his return in 1973, he joined his father and they systematically replanted the vineyards. David’s son Braam joined the business in 1978 and started making changes to the business. He
modernised and enlarged the cellar. Braam’s son David has now joined the business in 2002.

**Case three F.W.3 (Cluver)**

**Ownership stage** - 3rd generation - board of the Paul Cluver Group governs the running of the business and is made up of family and non-family members. Family business meetings are held separately from business meetings, which are held regularly.

**Family stage** - working together - 3rd and 4th generations working together with clearly defined roles: Dr Cluver being the non executive Chairperson, his son, the managing director, the production management position is held by the daughter, her husband is the marketing and project manager, the other daughter holds an administrative position, whilst her husband makes the wine and all finances are handled by a non family member. Performance management is key.

**Business stage** - expansion/formalisation. The wine focus is on quality in local and global markets. Empowerment company was started in 1996. Related businesses have been started on the farm.

**PAUL CLUVER: BACKGROUND**

In 1813, this farm belonged to Nicholas Swart. In 1875, De rust was granted to Christiaan Krynauw and on the original title deed, it was described as a cattle station. In 1896 Matthys de Villiers bought the farm. The present owner, Paul Cluver is the great grandson of Matthys de Villiers. Today it is one of the only original farms in the Elgin district. Dr Paul Cluver took over the farm from his father in 1976. In the mid 1980’s the Elgin area was identified a cool climate wine growing appellation with the potential to provide slow ripening grapes. Dr Cluver was assisted by Nederburg in his quest to pioneer wines from the Elgin area, which is traditionally an apple
growing area. Paul Cluver’s vision for his family run business is ‘to harness the tremendous diversity of mesoclimates and soil of our farm to our family’s passion for developing great and distinctive wines’.

**Case four. F.W. 4 (Middlevlei)**

**Ownership stage** - 3rd generation – family trust, with the father and two sons as directors. The sisters are not involved in the business. The business has operations meeting twice a month and family business meetings monthly. Although there are no outside members on the board, advice is sought from the business accountant and lawyer and anyone else should the need arise.

**Family stage** - working together - the brothers and their father all work together in the business, with specific demarcation of roles: the father looks after the overseas business, the one son tends to the vineyards, the other to the wine making, logistics and finance, whilst the daughter-in-law is employed to look after the marketing. Everyone draws a salary.

**Business stage** - expansion/formalisation: replanting of vineyards, upgrading of facilities, new markets, new labels.

**MIDDLEVLEI: BACKGROUND**

Two first cousins, both named Jan Momberg, inherited Middlevlei, which their fathers had farmed since 1930. In 1963, Jan sold his share to ‘Stil’Jan and bought Neethlingshof with the proceeds. Middlevlei Wine Estate is on the outskirts of Stellenbosch. Stiljan Momberg replanted the entire farm between 1960 and 1993. The cellar was built in 1943 and extended in 1998 with the addition of a maturation facility for 900 small barrels. Tinnie Momberg is the current winemaker and he shares his father’s belief in traditional wine making methods. His brother Ben, who worked for a year in
California, is the viticulturalist. They have managed the business since 1995. They both studied at Stellenbosch University.

**Case five F.W.5 (Uiterwyk/De Waal)**

**Ownership stage** - 5\textsuperscript{th} generation – company with three brothers as directors. Daughters are not included in the business, but have a share in the family trust. They have no outside council.

**Family stage** - the farm is run by the 5\textsuperscript{th} generation sons. They have clear role demarcation, with one being in charge of marketing and sales, the other being in charge of white wine making and the third being in charge of red wine making.

**Business stage** - expansion/formalisation. This business was started by a patriarch and has grown through the purchasing of additional farms, upgrading of the cellar and growth into new markets.

**UITERWYK/ DE WAAL: BACKGROUND**

The Uiterwyk Estate is situated west of Stellenbosch. Dirk Coetzee settled on this property in 1682, but was only granted the land by Simon van der Stel in 1699. The Krige family built the homestead in 1791 and the wine cellar in 1798. Jan Christoffel de Waal bought Uiterwyk in 1864 and three brothers of the fifth generation of the De Waal family still farm Uiterwyk. Chris, who took over from his father in 1979, is in charge of white wine making. Chris studied winemaking and cellar technology at Elsenburg and obtained practical experience in Germany in the area of Breisach. Pieter who joined in 1984 is in charge of marketing and sales. He completed a commerce degree at Stellenbosch University and gained valuable marketing experience at Robert Mondavi Winery in California. Danie who joined his two brothers is in charge of red wine making. He majored in viticulture and oenology at the University of Stellenbosch and gained experience in
Bordeaux at Chateau Angelus. Uiterwyk wines were sold in bulk until 1972 when Danie bottled a portion to sell under the Uiterwyk label. A new cellar was built in 1979. The original cellar is one of the oldest cellars that has been in continuous use since it was built. Uiterwyk exports 40% of its production under the Rosenburg label.

**Case six F.W.6 (Vergenoegd)**

**Ownership stage** - 6\textsuperscript{th} generation – one of the 6\textsuperscript{th} generation run the farm. The other children are in other businesses by choice. The farm is in a trust and the farm is leased by one family member.

**Family stage** - family trust leased by one family member, who has to report to the trustees.

**Business stage** - expansion/formalisation.

**VERGENOEGD: BACKGROUND**

This property was granted to Pieter de Vos in 1692. Johannes Coljin built the attractive gable onto the existing house in 1773 and wine was made for the first time in the 18\textsuperscript{th} Century. Johannes Faure bought the farm in 1820. Vergenoegd has 90 hectares planted to vines. The estate is close to False Bay. When John Faure died in 1969, his two sons took over. Jac made the wine and Brand was in charge of the vineyards. In 1990, Jac’s son, John became the winemaker, while Brand’s son-in-law manages the vineyards and marketing. John Faure has continued the tradition of the estate’s red wines and ports.
Case seven F.W. 7 (Allesverloren)

Ownership stage - 5th generation. The farm is in the DF Malan trust and the Allesverloren Farm is owned by Danie Malan. His brother owns another farm in the trust. They have external council in terms of their accountant and legal advisors. Meetings are held when required and are used to talk about business in general. Special meetings are held if and when required.

Family stage - the farm is run by the 5th generation. Day to day decisions are made by Danie, as the controlling owner.

Business stage - expansion/formalisation; this 5th generation farm, was started by the matriarch of the family. Danie the 5th generation runs the farm with his wife being involved in managing and upskilling of the employees. Distribution and marketing of the wine is handled by Distell both in the local and export market.

ALLESVERLOREN: BACKGROUND

The history of this wine farm dates back to between 1690 and 1696, when Governor Willem Adriaan van der Stel granted the land to a widow named Cloete. On returning to the farm, after a trip away, she found everything plundered and the manor house burnt to the ground – hence the name Alleverloren. Originally farming consisted of mainly wheat and sheep. Allesverloren is unique as it nestles against the foothills of the Kasteelberg. The Malan dynasty dates back six generations, when Daniel Francois Malan bought the farm in 1870. It is the oldest wine estate in the Swartland district. The farm was divided by successive generations, however the existing Allesverloren was farmed and owned by Fanie Malan. His son Danie Malan took over the winemaking in 1990, and in 1996 the farm was put into the DF Malan trust. Danie completed his training at Elsenburg. The estate specialises in red wine making and they are very traditional in their approach to wine making.
Case eight F.W. 8 (Bellevue)

Ownership stage - 4th generation run - farm in a trust.

Family stage - the farm is run by the 4th generation, Dirkie Morkel, who makes all the decisions as the controlling owner.

Business stage - expansion/formalisation; new plantings, new labels, new markets and cellar improvements.

BELLEVUE: BACKGROUND

The Morkel family has owned Bellevue Estate since 1861 when Dirk Cloete Morkel purchased it. He primarily farmed with sheep and cattle, but did plant some vineyards. In 1900, his son Dirk Cloete took over and his eldest son, Pieter Krige Morkel, known as P.K. did groundbreaking work in establishing vineyards at Bellevue, which resulted in the conversion of Bellevue to a wine estate. In 1943, the cellar was expanded. In 1966, P.K’s younger brother, Danie Morkel took over from him and his son Dirkie, the present owner joined him in 1978. Dirkie Morkel is the fourth generation on the farm and is the nephew of the founder.

Case nine F.W.9 (Excelsior)

Ownership stage - 4th generation. The farm is currently run by the 4th and 5th generation.

Family stage - working together until 2005, when the farm will be split, and each individual farm will still be run by the 4th and 5th generations after the split – i.e. father and son.
**Business stage** - varying stages- the farms have history as well as assets, however after the split, new facilities will have to be built for the one brother and a new label will have to be developed.

**EXCELSIOR: BACKGROUND**

The De Wet family has owned the Excelsior estate since 1870. The current owners are Stephen and Freddie De Wet who are the fourth generation of De Wet’s to farm the land. They have been joined by their sons, who take the family business into the fifth generation. Excelsior is not only known for wine production. It has bred many thoroughbred racehorses as it has one of the most distinguished studs in South Africa. It was also at the forefront of Ostrich plume production as well as being a cattle farm. Today the farm concentrates on wine farming and fruit farming as peach, citrus and apricot orchards exist on the farm.

Unfortunately, this potentially fifth generation family business is on the verge of splitting up for family reasons. The farm will be divided between Stephen and Freddie and will be farmed individually.

**Case ten: F.W 10 (Deetlefs)**

**Ownership stage** - 6th generation, controlling owner. The business is in a property trust with the children, who are still at school, as shareholders. A board of trustees meets quarterly to give an outside perspective on the family business. The 7th generation is made up of four children who are all shareholders of a joint venture holding company.

**Family stage** - the business is run by the 6th generation son with a strong management team who have a profit share in the business and clear demarcation of roles.
**Business stage** - expansion/formalisation; this family business is strategically managed with focus on formal expansion as well as expansion through related businesses. In addition to wine making, they have a wine laboratory, bottling plant, biological wastewater treatment plant, which are all income generators.

**DEETLEFS: BACKGROUND**

This estate has been in the Deetlefs family since 1822. Kobus Deetlefs is the sixth generation to manage the farm. The estate is situated in the Breede River Valley outside Rawsonville at the foot of the Du Toits Kloof Mountains. The Estate has grown substantially over the past 40 years and was restructured in 1992 to form the Deetlefs group. The Deetlefs group controls the whole process from production to retail. It includes a fully equipped and independent laboratory responsible for product analysis and quality management. These services are extended to other producers, agents and buyers. In their drive to be the ultimate environmentally friendly wine estate, they have installed the first fully-fledged biological wastewater treatment plant on the estate.

**7.9 CONCLUSION**

Chapter seven documented the planning and the process used in the empirical study, including the research framework, questionnaire compilation, the documentation process and the analytical procedure. A profile analysis of the research participants was also discussed. This included a description of the ownership stage, family stage and business stage, as well as a brief background on the family and the winery. Chapter eight will discuss the research findings.
CHAPTER EIGHT

RESULTS, FINDINGS AND CONCLUSION

8.1 INTRODUCTION

The purpose of Chapter eight is to discuss the results of the testing of the key drivers identified in the literature, which form the model illustrated in Chapter five, in the empirical study. The key objective of this study was to determine a model to promote sustainability in estate family wineries from a strategic entrepreneurial aspect. Chapter seven described the research approach, the questionnaire as well as the participants.

8.2 REPORTING FORMAT

Reporting case studies means bringing its results and findings to conclusion. According to Yin [2003], there are many forms of written case studies. The first being single cases, secondly the multiple case version of the single case study, thirdly, multiple case studies in an entire cross case analysis.

The fourth form is the one chosen by the researcher. This includes a multiple or single case study, but not in the traditional narrative form. The composition for each case follows a series of questions and answers based on the research questions and answers in the case study database. The advantages of this form of reporting are numerous. It enables cross case comparisons and allows readers to focus on areas of particular interest in accordance with the segmentation of the questionnaire, without having to focus on the entire report. The questionnaire will be discussed in the same order, which the interviews followed - these being issues relating to family business, strategic entrepreneurship and the wine industry. The last section of the questionnaire includes advice from the family businesses in terms of lessons learnt.
It can be deduced from the literature that there are certain prerequisites that family businesses need to follow to promote sustainability. There are also certain indicators from the literature in terms of wine success. These are the pointers that were identified in the unstructured interviews.

### 8.3 RESULTS

In reporting the findings, the estate family wineries will be coded as follows for ease of reporting as indicated in Table 8.1.

**Table 8.1: Winery coding**

<table>
<thead>
<tr>
<th>Winery</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landskroon</td>
<td>FW 1</td>
</tr>
<tr>
<td>Overgaauw</td>
<td>FW2</td>
</tr>
<tr>
<td>Paul Cluver</td>
<td>FW3</td>
</tr>
<tr>
<td>Middlevlei</td>
<td>FW4</td>
</tr>
<tr>
<td>Uiterwyk</td>
<td>FW5</td>
</tr>
<tr>
<td>Vergenoegd</td>
<td>FW6</td>
</tr>
<tr>
<td>Allesverloren</td>
<td>FW7</td>
</tr>
<tr>
<td>Bellevue</td>
<td>FW8</td>
</tr>
<tr>
<td>Excelsior</td>
<td>FW9</td>
</tr>
<tr>
<td>Deetlefs</td>
<td>FW10</td>
</tr>
</tbody>
</table>

The findings will be reported in the questionnaire order, with the questionnaire section leading the report. Questions will be handled individually however; where there is a common theme, the responses will be grouped together.

The definition of family businesses used for this study was included in Annexure A of the Questionnaire to ensure that the estate family winery
complied with the definition of a family business for this research and could thus be included as part of the research sample. [Annexure A].

QUESTIONNAIRE SECTION B: FAMILY BUSINESS HISTORY

1. Describe how your family business began.

Year?

The history of the South African Wine Industry has very close parallels with South African history. This is evident in the research participants’ family history as the founders were immigrants from Europe, mainly France and Holland and thus were part of the Settlers who relocated to South Africa.

The origin of FW1, 3, 5, 6, 7, 8, 9 and 10 date back to the 1800’s. FW2 to the 1700’s and FW4 to the early 1900’s. This is indicated in Table 8.2.

Table 8.2  Start up year of Family Wineries

<table>
<thead>
<tr>
<th>Winery</th>
<th>FW1</th>
<th>FW2</th>
<th>FW3</th>
<th>FW4</th>
<th>FW5</th>
<th>FW6</th>
<th>FW7</th>
<th>FW8</th>
<th>FW9</th>
<th>FW10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>1874</td>
<td>1784</td>
<td>1896</td>
<td>1919</td>
<td>1864</td>
<td>1820</td>
<td>1870</td>
<td>1861</td>
<td>1870</td>
<td>1822</td>
</tr>
</tbody>
</table>

Why?

As these Settlers were seen as people with expertise who could develop agriculture in South Africa, it was common practice for the Governors of the Cape to grant them land. FW1 was granted by Simon van der Stel, as were
FW2, 3, 4 and 5. FW6 and 7 were granted by Governor William Adriaan van der Stel. All of the farms, with the exception of FW7 were granted to males, who were the patriarchs of the families. FW 8, 9 and 10 also date back to the 1800’s and were started by the Settlers from Europe who immigrated to South Africa.

**Who started it?**

**Table 8.3 Indication of founder**

<table>
<thead>
<tr>
<th>Winery</th>
<th>Founder</th>
</tr>
</thead>
<tbody>
<tr>
<td>FW1</td>
<td>Jacques de Villiers</td>
</tr>
<tr>
<td>FW2</td>
<td>Willem Joubert – maternal side of the family</td>
</tr>
<tr>
<td>FW3</td>
<td>Matthys de Villiers – maternal side of family</td>
</tr>
<tr>
<td>FW4</td>
<td>T. Momberg</td>
</tr>
<tr>
<td>FW5</td>
<td>Jan Christoffel de Waal</td>
</tr>
<tr>
<td>FW6</td>
<td>Johannes Faure</td>
</tr>
<tr>
<td>FW7</td>
<td>Daniel Francois Malan</td>
</tr>
<tr>
<td>FW8</td>
<td>Dirk Cloete Morkel</td>
</tr>
<tr>
<td>FW9</td>
<td>De Wet</td>
</tr>
<tr>
<td>FW10</td>
<td>Kobus Deetlefs</td>
</tr>
</tbody>
</table>

The founders of the farms are indicated in Table 8.3. FW2 and 3 have origins on the maternal side of the family, with the rest of the winery owners still carrying the original family name, as they have been passed on to the eldest son. FW2 reports that normally the family lineage in wine history is only linked to the male family members. However, in the Van Velden family the female lineage has made wine for three generations. The farm Overgaauw is named after the original Van Veldens’ wife, whose name was Elizabeth Overgaauw. FW10 changed the name of the wine farm back to the family name Deetlefs in 1998 to take advantage of being recognised as a family wine farm. The farm used to be called Lebensraum.
Any other information about the history of the family and the family winery?

Not all the farms began as wine farms as is indicated in Table 8.4. They have a varied history of other types of farming some running concurrently with wine farming, as indicated in Table 8.4. FW2 reports ‘that there was so much more diversity back then – we grew fruit, vegetables and table grapes as well as wine grapes. Only in the 1970’s did we decide to concentrate exclusively on wine.’

Table 8.4 Original type of farming

<table>
<thead>
<tr>
<th>Winery</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FW1</td>
<td>Cattle: jersey and stud: sold milk until 1992  Grapes</td>
</tr>
<tr>
<td>FW2</td>
<td>Fruit, vegetables, table and wine grapes</td>
</tr>
<tr>
<td>FW3</td>
<td>Cattle and apples</td>
</tr>
<tr>
<td>FW4</td>
<td>-</td>
</tr>
<tr>
<td>FW5</td>
<td>-</td>
</tr>
<tr>
<td>FW6</td>
<td>-</td>
</tr>
<tr>
<td>FW7</td>
<td>Wheat and sheep and grapes</td>
</tr>
<tr>
<td>FW8</td>
<td>Sheep and cattle and grapes</td>
</tr>
<tr>
<td>FW9</td>
<td>Ostrich, cattle and horses and grapes</td>
</tr>
<tr>
<td>FW10</td>
<td>-</td>
</tr>
</tbody>
</table>

FW3 changed to wine farming when legislation changed and the quota system was lifted and the Elgin area was granted appellation for wine making. It is thus the winery that has the shortest history in terms of wine making, but has been run as a family business for three generations. FW3 reports that ‘over the last one hundred years, the business has been
transformed from mixed farming from 1896 – 1948, to fruit farming from 1948 to which grapes were added in 1987 and wine in 1997.

2. Describe how your family business has grown:

Structure

The change in structure of the wineries over the years varies from family business to family business. The most significant of these are FW3 and 10, where non-family members are on a profit share scheme and are decision makers. FW10 reports that ’We place greater emphasis on the personal development of each worker. We believe in the value of people and the importance of self development.’

Structures of the other farms have expanded to include the specific role demarcation of the family members, whereas the remaining wineries are run very much as a founder business where the controlling owner is the decision maker and controls most of the processes.

FW1 has enlarged their structures to accommodate the new generation of children working in the business. This includes the 9th generation Paul and Hugo and their sisters Madelief and Huguette who all have designated responsibilities. They are treated as salaried personnel.

FW2 has always been known for its father/son combination, throughout the generations. The generations’ names of the eldest sons alternate between Braam and David. The 4th generation Braam manages the farm, with his son David who represents the 5th generation. The daughters are not involved in the business, but are beneficiaries of a property trust. David has a marketing and business background and is the assistant wine maker.

FW3 has developed structures to accommodate family and non-family members, with specific role demarcation. This structure indicates the working together of the 3rd and 4th generations. Family members hold key
positions as well as two sons-in-law. One key position, that of finance is held by a non-family member.

FW4 is another example of working together, as the 2nd and 3rd generations manage the farm. The management of the farm is shared between the father and his two sons. The daughters are not employed in the business, however the one daughter-in-law is an employee of the business. She is responsible for the marketing as she has a marketing qualification, which warrants her holding the position.

FW5’s has been structured around the three brothers (5th generation) who are involved in the business, each with their specific responsibilities and areas of expertise in wine making and viticulture. The daughters are not included in the business, but are beneficiaries of the family trust.

FW6, 7 and 8 are run very much along the lines of a founder business, where there is one member of the family involved and the rest of the staff are employees. FW 7 has a viticultural farm manager who is employed on a profit share basis.

On FW8, Dirkie Morkel (Family member owner, 4th generation) is the viticulturalist and all other positions at the winery, which include the winemaker, finances, sales, marketing and export, human resources and administration, technical maintenance, bottling and labelling and public relations are held by non-family members.

FW9 is at present run by two brothers (4th generation) and their sons (5th generation). Unfortunately, this family business is in the process of dividing. The two new resulting businesses will be run by father and son where the father will ultimately make the decisions.

FW10 is managed by a 6th generation controlling owner with a strong management team who have a profit share in the business and clear demarcation of roles and performance measures. This winery was
restructured to become the Deetlef’s Group. This has also accommodated the new additions of the bottling and labelling line, the laboratory, the processing cellar, temperature controlled warehousing and the biological wastewater treatment plant. The Deetlef’s Group is made up of the wine business, the wine laboratory, the bottling line and joint venture holding company. Over the period of ten years, the business has grown from being a wine farm, to a wine estate to a wine group.

**Employees**

The majority of employees are still employed as seasonal workers because of the seasonal nature of wine farming. FW2, 3, 4 and 7 report that their permanent staff are almost like extended family. They have worked on the farms for years and live on the farms. FW1 has 70 employees, of which 45 live on the farm. FW3 has 65 employees who also live on the farm. The farms provide clinic facilities and assist with education. FW5 reports that their staff complement has doubled in thirty years because of additional farms being bought. FW7 reports that they have had a turnaround because of their provision of facilities for employees and now only have a 1 percent labour turnover.

**Market share**

The wineries reported that their market share has remained the same or shown an increase. In the light of the number of new wineries, which have opened, with the change in South African legislation, to hold market share is in itself a good performance. The change in South African wine legislation has increased the area certified for wine production. This together with the KWV no longer controlling the industry has seen many newcomers in the industry. The total number of cellars has increased from 505 in 2001 to 561 in 2004 [SA Wine Directory; 2005/6]. This is coupled with the weakening performance of the domestic market, which trended at 87.88 percent in 2002/2003 and 100.17 percent in 2003/2004. [S.A Wine Directory: 2005/2006].
**Financially**

Financial aspects were not willingly discussed, however, most reported to be financially stable, although the strengthening of the Rand for the export market appeared to be a concern. It was intimated that the capital intensity of wine farming is one of the main financial aspects of this business as the investment in upgrading cellar facilities, replanting vineyards, bottling lines and other facilities is extensive.

**Product range and new products**

With regard to product range, one of the most common factors was that most of the wineries have stopped selling bulk wine and grape to the producing wholesalers as they can be more profitable managing the whole process as this adds value. This is evident in FW’s 1, 2, 8 and 10. The bulk wine concept stems from the history of the South African wine industry, which was dominated by the co-operatives, as was reported in Chapter 2. FW2 comments that ‘when selling bulk wine, they were completely in the hands of the wine buyer as they dictated the type of wine they would buy.’

Another commonality amongst these wineries is the dominance of ‘firsts’ in the wine business. FW2 gave South Africa its first single varietal Merlot and one of the first Cape Bordeaux style blends. It was one of the pioneers of chardonnay and the only producer of Sylvaner. They were also the first estate to break the R1000 per case barrier at the CIWG auction in 1994, the first estate to use small 225 litres French Oak barrels for maturing cabernet, the first estate to plant Portuguese port varietals, the first estate to bottle Touriga Nacional as a single varietal port and the first estate to drop the name port from its labels.

FW9 approached the market differently to other wine producers, who concentrated on the local market first. They concentrated on the export
market and then the local market. They make a lot of private labels for supermarkets abroad, focusing on affordable quality.

FW5 has a conviction that ‘South Africa needs great Pinotages, not merely as standard quality, but to put the country and the variety on the map. Pinotage is part of the family’s patrimony as the first Pinotage was made by CT de Waal at Elsenburg in the early 40’s.’

FW10 is the only winery in the world allied to the International Campaign to ban landmines. A percentage of sales is donated to this cause. FW10 also produces a Muscat d’Alexandrie under the label Philippus Petrus Deetlefs, which reached R30 000 at an auction in London in 1974.

FW3 was an initiator in the empowerment projects where the farm labourers were given the opportunity to participate as owners and profit sharing in a winery. They initiated the Lebanon project, which resulted in the Thandi winery.

The opening up of the estate legislation and markets, has also allowed for more latitude in terms of product range. The family wineries interviewed have decided to focus on being an icon niche wine, with the focus on top end quality rather than on volume, remaining small, but with added value, only producing the wines that are best suited to their area. This added value is demonstrated in wines being area or ‘terroir’ specific, with no irrigation, which results in better quality, but lower yields and aspects of wine making and maturation. This is evident in FW1 as they focus on producing red wines and port, however, they do have some white wines in their portfolio. ‘We only made bulk wine, but a successful export venture with the KWV gave us the confidence to enter the local market in 2000.’ FW2 has a portfolio of red and white wines. They produce a unique cultivar Sylvaner, which is suited to their soil. FW2 is involved in a consortium venture for
export as well as the local market. FW 2 states that ‘there will always be a market for quality wine, whether it is Chenin Blanc or a Bordeaux style blend.’

The wineries have introduced wines at different price points, with their flagship range being positioned in the premium sector and others in the medium priced sector, as well as different ranges for the local and the export market as indicated in Table 8.5.

FW4 produces predominantly red wine, but also has a Chardonnay in their portfolio. They produce a special range, Hagelsberg, for export only. FW5 has two ranges for the local market, a premium range and a standard range as well as an export range. In 1972, this winery only produced Riesling wines, but they have since then increased their portfolio substantially.

FW6 produces red wine only and has a premium as well as a second label.

FW7 is renowned for their red wines and port. He has experimented with unfamiliar red varietals and has a Touriga Nacional in the product range.

FW8 was the first, together with Kanonkop, to launch Pinotage commercially. These vines are still used to produce their Pinotage. They have two ranges of wines, with both red and white varietals.

FW9 has a range of red and white wines and concentrates mainly on the export market.

FW10 also has two ranges of wines and markets locally and abroad, being Deetlefs and Stonecross.

Table 8.5 illustrates the various product ranges of the wineries.
Table 8.5 Family Estate Wine Ranges

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<td>Flagship range</td>
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<td>FW1</td>
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<td>FW2</td>
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<td>FW3</td>
<td>Paul Cluver</td>
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<td>FW8</td>
<td>Morkel,Tumara</td>
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<td>FW9</td>
<td>Excelsior</td>
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<td>FW10</td>
<td>Deetlefs</td>
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Assets - fixed assets

Growth in the family businesses has varied, however the one common factor has been the investment in additional vineyards and upgrading of cellar facilities in other words - investment in fixed assets. These estates are all in the quality sector of the wine industry and access to quality grapes is a necessity in this sector as well as good cellar facilities.

The wine industry is a capital intensive industry. Investment lies in the vineyards, the cellar, bottling plants and in wine maturation. The wineries did not reveal, in financial terms the extent of the growth in fixed assets. However, FW1 recently installed a bottling line, which is a Broad Based Black Economic Empowerment venture and this incorporates the farm workers as shareholders. FW2 has systematically replanted their vineyards, the old cellar has been expanded with stainless steel tanks, the best equipment and a maturation cellar with a capacity for 1000 barrels. FW3 has built a made to measure cellar for the making of hand crafted premium
wines. They have also invested in the following complementary businesses: a bed and breakfast, an amphitheatre and a farm stall.

FW4’s cellar was built in 1941 and extended in 1998 with the addition of a maturation cellar for 900 small barrels. Its current capacity is 1.1 million litres, although less than half is used. In the 1960’s FW5 owned one farm and bought another in the 1970’s. They have built new offices and a very prestigious wine tasting facility. FW10 has made substantial fixed asset investments in terms of the new additions of the bottling and labelling line, the laboratory, the processing cellar, temperature controlled warehousing and the biological wastewater treatment plant.

New markets

The removal of sanctions on South African products furthered the export of wine since 1994. The export of natural wines trended at 112.35 percent in 2004 [SA Wine directory; 2005/6]. New markets are of prime importance to this sector as reported in Chapter two. The opening of the export market and the value of the Rand have created this as a prime focus, however the importance of the local market remains a priority for all the wineries although local consumption has declined to only 7.5 litres per person per annum.

Approaching new markets, locally and abroad has been handled differently by the wineries with some using alliances and others handling it on their own. FW5 reports that they previously only sold wine in South Africa, but that they now have a special range purely for export. FW1 advocates that there should be a collaborative marketing effort to promote South African wines to Far Eastern markets like China and India. FW5 exports to the UK, Germany, Holland and in Norway, they have a 3 litre wine called Hagelberg, produced and packaged specifically for that market. FW2 exports to the UK, Denmark, Germany, Switzerland, Canada and the USA. They report that the export market allows for better price points. FW7 has outsourced their marketing, both locally and internationally through an alliance with Distell. FW6 highlighted the importance of the emerging black market and said that
they were going to participate in a wine show in Soweto, with the hope of expanding their local market. The lack of growth in consumption in the local market seems to be a concern for most of the wineries and the feeling is that this should be dealt with as an industry, rather than individually.

The majority of the wineries felt that wine is their core business and their wine-making skill is one of their competitive advantages that sets them aside as the quality-producing sector. They are traditionalists in terms of wine-making. In terms of other products, there is little development in this area. Some of the wineries sell oil, vinegar and jams and have farm stalls, [FW2 and 3] but not as a core business.

Other businesses

Chapter two reported on the global growth of tourism in the wine industry as well as its importance to the South African wine industry. There are many aspects to tourism and wine, starting with cellar visits, tastings and wine sales. This has become an important way of advertising the wines. All the farms with the exception of FW9 have tasting facilities. FW3, 5 and 10 have built modern new facilities, whereas the others have used the existing farmstead and buildings as tasting facilities. Picnic sites are available at FW2, 3 and 5 of the wineries, however none of the wineries interviewed have gone the restaurant route, as they feel that it is not their core business. An interesting development at FW3 is an amphitheatre and a bed and breakfast facility.

FW4 has a range of animals on the farm, which is an added attraction. FW4 reports that they ‘don’t want people to eat at a restaurant on their estate and have a bad experience – they are in control of their wines and would rather stick to what they are good at rather than taking a chance on a non-core business.’ The focus for all the wineries interviewed is on the core business that of making quality wine.
FW10’s approaches to the facilities required to make wine as profit centres. The bottling and labelling line and the laboratory are outsourced to other wineries.

FW2, as mentioned earlier, initiated a consortium for the export of wine, so that there would be more backing and availability. This has proven to be a lucrative business.

QUESTIONNAIRE SECTION C: FAMILY RELATIONSHIPS

1. Describe what it was like growing up in your family –

   a. Was there a favourite child

   All the families interviewed reported that there was no favouritism shown to any of the children. They were all given the same education opportunities and worked on the farms as children. FW3 reports that ‘None of us have been coerced to join the family business in any way, in fact we have been encouraged to take opportunities which would further our development.’

   This not wanting to show favouritism seemed to have caused problems in the leadership of FW3 as is reported in ‘At first all family members were seen as equal within the business, because we have always been brought up as equals. Obviously the older generation did not want to be seen as favouring one child above the other. This did create a period of weak leadership, which was then addressed by clearly establishing the roles of the individuals and creating structures.’

   b. Was the family business discussed at home?

   FW7 reports that the family business was discussed at home, particularly issues relating to wine being the conditions of the vintage and harvest. He states that “My father Fanie was not the easiest of teachers, but he was the
best.” FW10 concurs with this in saying that he learnt most of what he knows about wine, business and relationship building from his father and the discussions around the dinner table. FW 1, 2, 3, 4, 5, 6, 8 and 9 all report working on the farms as children and the business being discussed at home. ‘Wine is part of our lifestyle as well as being our business, so it was always included, particularly at the dinner table.’

2. **Describe relationships within your family**

The answers to the above question were very positive in terms of amicable relationships, both with siblings, parents and other family members. FW7 reports that he ‘has great regard for his family tradition which is supported by relationships.’ Not one of the wineries reported bad relationships, except for FW9. It was reported that there were no problems with this relationship until the wives were involved. This seems to have created the majority of the problems resulting in the split of the winery. FW5 is also very aware of the problems that wives can cause in the family business and as a result, they are totally excluded from the business.

FW3 reports that ‘we have grown up in an environment where we have learnt to value relationships above possessions, where there is a culture of caring for others and for the environment and therefore the only relationship worth having is a win - win one. We have also had a work ethic instilled in all of us.’

3. **Is there any reason why there are family members not involved in the family business?**

When asked if any members of the family are excluded from the business and why, the common reply was ‘because she is a daughter’. FW’s 4 and 5 report that daughters benefit in other ways, in that they are given property or cash and/or have a share of the family trust, but not decision-making power.
FW4 reports that the sisters will benefit from the mother’s estate, in lieu of them not being involved in the family business. In FW6, the fact that there is only one son involved is by choice as it is in FW8. In FW10 the son is the only son and he heads up the business, his sisters are not included in the business.

FW1 and FW3 have included the sisters in the businesses.

4. **Describe how conflict is managed in the family**

Conflict resolution is commonly dealt with through informal communication and strong family leadership. Personal conflict is sorted out through communication in an unstructured manner through good relationships. FW3 has separate platforms for business and family conflict resolution, as do FW2. FW1 focus on conflict management and believe that the accountability that each family member has with regard to their positions alleviates conflict. FW5 believe that each brother is an expert in the area that he manages and that respect for their ability in their field alleviates conflict.

The common thread that runs through all the wineries interviewed is a common sense of family values and family pride and a close family bond based on good healthy relationships. ‘Clear division of roles is essential to avoid confusion of roles and ensuring what everyone wants from the project.’
QUESTIONNAIRE SECTION D: BUSINESS STRUCTURES AND RELATIONSHIPS

1. Describe how your organisation is currently structured

Figures 8.1 - 8.6 illustrates the structures of the Family Wine Farms.

**Figure 8.1 FW1 Structure**

- Hugo de Villiers Snr
  - CEO
- Paul de Villiers Jnr
  - MD and Chief Winemaker
- Madelief de Villiers
  - Finance and creditors
- Hugo de Villiers Jnr
  - Vineyards and general Farm operations
- Huguette de Villiers
  - Debtors, promotions, marketing

**Figure 8.2 FW2 Structure**

- Braam:
  - Managing Director (Father)
- David:
  - Assistant wine maker (Son)
- Farm Manager
  - Non Family
Figure 8.3  FW3 Structure

**BOARD**
- Non executive chairman - family - father
- Non executive director – non family
- Executive director - family - son
- Executive director – family-daughter
- Secretary - non family

**MD**
- SON
- Personal Assistant

**MD**
- Marketing and Projects - Son in law
- Wine Maker - Son in law
- Production Manager - Daughter
- Finance - Non family
- Eco Tourism - Daughter

Figure 8.4  FW4 Structure

- Father: International marketing
- Son: Winemaker
- Son: Viticulturalist

Figure 8.5  FW5 Structure

- Brother: Marketing and Sales
- Brother: Red Winemaker
- Brother: White Winemaker
The new structure for this family business had not been finalised as they were still sorting out the split.

The 6th generation controlling owner runs this winery and has a management team, who works on a profit sharing basis, which head up each of the different divisions.

2. *Describe the responsibilities of each of the family members working in the business.*

One common characteristic of all the wineries is the clear demarcation of roles and responsibilities. As reported in Chapter 7, in the synopsis of the wineries, each family member has a clear definition of roles and
responsibilities. Invariably, this is in line with what they have studied. It was reported that this facilitated the lack of conflict as each person works in his or her area of expertise. In FW1, the responsibilities are divided between Managing Director and Chief winemaker, vineyard and general farm operations, finance and creditors and debtors, South African marketing and promotions. FW5 also has clear demarcation of responsibilities: marketing and administration; red and white wine making and vineyard management. FW3 divides the responsibilities between Managing Director, winemaking, production management, eco-tourism, finance and marketing and projects. FW4 has the divisions of international marketing, wine making and viticulture. FW2 shares the responsibilities between the father and the son where the father is the managing director and the son is the assistant wine maker.

3. Describe your management style:

Another characteristic of all the wineries is that they are team focused, with strong leadership, in terms of the management style, which is very in keeping with the entrepreneurial style of management [Timmons, 1999; Gersick et al, 1997]. This is very evident in that the one function e.g. vineyard management is as important as the wine making. This team approach ensures quality at every level. The team focus involves the farm labourers as well. All the wineries have a genuine interest in the labourers, which includes accommodation on the farm, clinic facilities and education. FW4 reports that the labourers are extended family and are an integral part of the team.

FW7 runs the farm based on his father’s philosophy, ‘that being the fair treatment of people, which includes payback – give back to those who helped you make it.’ They have a dedicated team focus and the future of the farm includes the workers. On this farm, the wife is involved in the skilling of the labourers.
FW3 also has a team focus and comments on the important role that the women play in the team, not only in their areas of expertise, but also in their approach to problem solving. FW3 reports that ‘women excel at team building and have excellent communication skills. Participation of female family members creates a far more harmonious environment, as opposed to problems created by multiple alpha males. So in a way we were lucky to only have one son.’

‘Governance is important in order to ensure that the business is run in a professional manner and that the family’s emotional attachment to management and the business does not allow for substandard performance. At times you have to recognise that a wholly owned family business is different and in our case, we do not get held back by bureaucratic systems.’

4. **Describe the relationship between and among family members in the business setting.**

The family relationships transfer to the business setting. The close bonds that are evident in the family exist in the business setting. The relationships are dominated by a passion for making quality wine. The focus of relationships is on face to face long term relationships with suppliers and customers, rather than on short term relationships. ‘The importance is seeing the company as an organism coordinating people working together. Relationships between participants is of critical importance. The relationship between family members in the business setting is based on mutual respect and understanding.’ FW3 reports that ‘whilst close personal relationships would create governance problems in a listed company it is precisely the quality of these relationships which determine the quality of the product of a small family business and the brand image of that product.’
5. *Describe the influence if any, of family structures, relationships, family themes and values on the business.*

The relationships in the business setting are based very much on the family relationships, these being respect for the eldest and the family bond. Possibly, the successful multi-generational transfer of these family wineries is based on how relationships have been handled. They are evidence of the family business thinking that every family has to be a relationship-first family business. A relationship-first family business is one in which there is deep sensitivity and understanding of the fact that decisions are often a compromise between family and business. There is also a great appreciation that both the family and the business are more than either would be by itself [Hoover et al; 1999]. The relationships in the family wineries all show evidence of open communication, which enhances relationships as well as the fact that the relationships are given formal status with clear responsibilities, role demarcation and areas of decision making.

FW3 states that 'small integrated family businesses are best suited for the creation of unique products reflecting people and origin as opposed to and automistic or modular production of standard products. The integrated family business creates something with more of a soul. Dysfunctional families cannot create functional interdependent family businesses – family values are important. We have learnt to separate the roles we have in the business from the roles we have in the family.'

These strong relationships are based on the values of trust, optimism and respect. Family themes that dominated are integrity, love and respect for your fellow man, upholding of family traditions - particularly in wine making [FW 7]. The shared focus of making iconic, award winning wines enhances the relationships as there is a common purpose and a shared vision.

FW2 states that wine is an integral part of the family and the love of wine ‘runs through this family like a gold thread’. The family emphasis on wine is evident in ‘we made wine a part of their lives from very early on. Seated at
the family table before their feet could touch the floor, the children were always given a little bit of wine, albeit diluted, to enjoy with their dinner.’

6. Describe how business decisions are arrived at.

The person in charge of their area of expertise makes business decisions with informal discussion at family meetings. As indicated Section D: 2, each member has clear responsibilities and makes decisions in these areas. FW3 and 10 report that they use the board for strategic guidance and to identify new markets and trends that might affect the business as well as other strategic decision making.’ An informal structure does not work and clearly identified roles are critical in a family business in terms of decision making.’ The small non-hierarchical structures evident in these family businesses allow for quick decision making – ‘if the customer likes something, we can give it to them.’

7. Are non-family members included in decision-making?

Only FW’s 3, 7, 8 and 10 allow for non-family decision-making. People are employed in management positions and make decisions related to their area of responsibility.

8. Describe how conflicts in the business are resolved.

Conflict resolution is commonly dealt with through informal communication and strong family leadership. The wineries that do have family boards use this for conflict resolution, but on a business level. Personal conflict is sorted out through communication in an unstructured manner. FW9, which as a result of conflict is dividing, reports that they had formal channels for conflict resolution; however, it still ended in the business being split. They report that the influence of wives and the introduction of the next generation on the one side of the family was one of the major causes of the split. There was a break down in the relationship because of different values and
expected outcomes and lifestyles from the business. FW3 has a platform for business conflict resolution as well as family conflict resolution. The involvement of the daughters in the business is seen as a benefit when it comes to conflict resolution and in fact the avoidance of conflict as they seem to place more emphasis on peaceful relationships.

9. **Has a strategic business plan been developed which considers both family and business issues?**

With regard to strategy both on a business and personal level, some of the wineries report that they do not have a business and family strategy.

FW2, 3 and 10 have very clear vision and goals both on a family and a business level. This involves benchmarking as well as focus on quality. For all of the wineries their vision is to make really good quality wines and sustaining the family business. Wines made in smaller quantities as their flagship range but with added value - in other words, iconic wines.

FW3’s vision is ‘to harness the tremendous diversity of the mesoclimates and soil of our farm to our family’s passion for developing great and distinctive wines’. FW3 reports that ‘formally developing missions and visions for an enterprise or a family would have been strange concept for the first two generations and for most of the life of the third generation. However, the first two generations had very strong core values and a sense of purpose shaped by their backgrounds. The dominant influences here were from great-grandparents of the 4th generation who were Monrovian missionaries and other great grandparents who were on the one hand children of a Lutheran Minister and on the other hand Huguenot defendants. These influences led to family values of hard work, living frugally and developing people around you. These have led to the current vision which is to make a meaningful difference which has led to a significant involvement and investment in areas such as conversation, education, empowerment and joint ventures.’
FW10 has a well-structured vision, linked to objectives. As reported earlier, part of this vision was the building of the family winery from a wine farm to a wine group. This was a ten-year plan and has been brought to fruition. FW10 saw a name change from Lebensraum Estate to the family name Deetlefs in 1998, to highlight the family involvement in the business and to immortalise the family name. 'We place greater emphasis on the personal development of each worker. We believe in the value of people and the importance of self development. This extends to the vineyards where the integrated production of wine and goal driven production are key.'

FW2 reports that ‘they will not be dictated to by short term trends. We plant what will do best on a specific site within the parameters of the house style and our particular strengths as a winery of course.'

10. Do you have a personal strategy?

The personal strategies of the majority of the wine farmers related to making good quality icon wines and supporting a balanced lifestyle. FW2 states that ‘there is no greater satisfaction than making a truly great wine, but on the other hand, there is nothing more frustrating than not being able to do it again the following year.’ FW2 also emphasises the maintenance of culture, history and tradition as part of the personal strategy.

FW10 reports that ‘growing up here has given me a great sense of pride in my heritage and deep respect for the land that has nurtured us. This in turn gives me the confidence to expand our horizons using innovative ways of creating classic wines whose quality and style will deeply reflect those deep rooted values and traditions, but will also point the way to a bright bold future.’

FW4’s personal wine making strategy revolves around the following ‘it’s not just fruit, but also backbone; somewhere between traditional French and New World styles - that’s how we see the national profile.’
11. Is it a prime objective to maintain/enhance the lifestyle of the owner?

The maintenance of the lifestyle of the owner would never be pursued at the expense of the family or the business, however wine making and lifestyle are synonymous and with the dominant focus on wine making, this remains the main objective. The father of FW4 reports that he is ‘enchanted that he can drink a glass of wine at 9 o’clock in the morning with a friend and call it work.’

12. Do family objectives have priority over business objectives?

In terms of family and business objectives, there appears to be no hard and fast rule, with priority being determined by the situation, in other words, family does not always come before business and vice versa. FW2 reports that they are in business and that there are no favours for family. FW1 reports that ‘nothing is done to the disadvantage of the business, but always for the benefit of the business.’

QUESTIONNAIRE SECTION E: GOVERNANCE

SUCCESSION MANAGEMENT

1. Describe how and when the business was transferred from one generation to the other.

In all cases the transfer of leadership took place on the retirement of the father combined with the readiness of the successor. Only in the case of FW10, did the leadership transition take place on the passing of the father. As it is accepted that the eldest son would take over the business, there is an absence of power struggles, which allow the family to focus more on business continuity than on who should lead the business. This acceptance of the successor allows family members to focus on their areas of responsibility. FW3 reports ‘The older generation has consistently shown
faith in us to give us responsibilities which in most other organisations would have been reserved for older persons. Thus my father made me MD of the business at the age of 27.’

2. *Is the survival of your business as a family business a prime objective?*

Survival of the family business was viewed as important by all the wineries, however, as in the case of FW10, should none of the children wish to enter the business, it would continue to run, with them as shareholders under management.

3. *Was there a succession plan?*

Succession has been reported to be one of the major concerns for family businesses. The researcher decided to study family businesses, which have already been passed on to the third generation or further to identify lessons learnt from the successful transfer.

A common phenomenon in the wineries interviewed is the fact that succession was by choice and it was accepted that the successor would be the first-born son, should he decide to take over the business. In essence, most wineries report that they do not have a formal succession plan because of the reasons given above. Most of the families view the family business and particularly the wine estate name as a legacy that should be passed on to future generations in the interest of the long term survival of the business and the family name. The acceptance of the first born son taking over the business removes areas of conflict in succession and enhances family unity. The absence of formal succession planning, other than that the first born son will take over the business, is compensated by the fact that the parents expose the children to the business at an early age as well as education that enhance competence in the succession. This was reported by FW1, 2, 3, 4, 5, 7, 8 and 10.
The ownership structures of the all families interviewed are quite simple, which also enhances this transition. The most complicated structure was FW1 where cousins are involved in the business. The literature indicates that where more than one family is involved that the succession process becomes more complicated. This will be evident for some of these family businesses transferring to the next generation. FW5 is aware of this and they are in the process of reviewing a succession plan for the business for the next generational transfer.

4. What prompted the transfer?

The prompting of the transfer, in most cases is retirement by the fathers, although they still play some sort of role in some of the businesses. FW1, 2, 3 and 4 still have the fathers involved in the business to some extent. Strong youthfulness was reported as another transition prompter. The children were ready to take over the business after graduation. This was evident in FW1, 3, 4 and 7. FW10, the transition took place because the father passed away.

The successions vary in terms of how they were handled. FW3 reports that as there are five children, four of them being daughters and that the daughters are involved in the business. The ownership after the succession is a fifty/fifty split - the son retaining fifty percent and the remaining fifty percent being shared between the daughters. On talking to the daughters, they feel that this is a fair split. This is in keeping with the dominance of the first-born son. FW1, 2, 4, 6, 7, 8 and 10 are all evidence of the first-born, or next in line taking over the winery, either as inheritance or that they bought the winery. FW5 and 9 are structured on a share basis where the sons share the ownership. Daughters, as mentioned earlier, are bought property elsewhere or are compensated in cash.

An important consideration, in keeping the tradition and the culture of the winery going was the skill, expertise and passion of winemaking. The majority of the successors studied wine-making and acknowledged a lot of
their wine-making ability to what they had learnt from their fathers, whilst helping in the winery as a child.

5. **If conflicts resulted, how were they resolved?**

There seems to have been no conflict on transfer, because although they report no succession plan, there in actual fact is an informal one, where it is accepted that the first-born son or the sons will take over the business.

6. **Is there a succession plan in place today?**

Most wineries report that they do not have a succession plan in place or that they are considering one, other than FW3 and 10 and they assume that transfer will take place on the same basis. FW5 is currently busy with drawing up a succession plan for the next generation as the children from three families will be involved in the succession process.

7. **Describe the selection criteria used for the leadership transition.**

As reported, the selection criteria for the leadership transition, was that the first-born son would take over the business, should he want to. There is no evidence of a son not wanting to take over the business. These selection criteria are the same for all the wineries interviewed.

8. **Describe the reaction of the successor and the rest of the family members, before, during and after the assumption of leadership.**

In all cases, there was no reaction, as it is accepted that the eldest son would take over the business. Sons are schooled in the business and wine-making from an early age and this also facilitates the transfer, not only of succession, but of leadership as well.
9. **Describe the reaction of other internal stakeholders (employees, non family members) and external stakeholders (suppliers, distributors, etc).**

As the wineries have a dominant focus on relationships, both internally and externally, they report that there was no reaction by internal and external stakeholders when the transfer took place. This is also because the children have worked closely with their fathers in the businesses whilst growing up. Relationships are seen as one of the strong capabilities of the family wineries.

10. **Describe the preparation your generation undertook before assuming their current positions.**

Preparation for all the generational transfers involved working in the business as a child. FW2 reports having worked on all sections of the farm whilst at school and at university. The same is evident for FW5 and 7. This ‘on the job’ training allowed for the transfer of knowledge. Business issues were also discussed in the home, which was also seen to be preparation for taking over the business as well as education reported in Section E: 12.

11. **Did you receive special education?**

Education before transfer is a dominant focus of all the wineries, with most of the successors having wine-making training. Where there is more than one son involved in the management of the winery, a variety of tertiary education qualifications are evident – wine-making, viticulture, accountancy, marketing and production, although education is not a prerequisite for employment.

Formal tertiary education is evident in all the farms. FW2 the Father has a B.Com from Stellenbosch University and studied oenology and viticulture at Gesenheim in Germany. The son has a business qualification from Stellenbosch University. David the son, is the assistant wine-maker and
says ‘Wine has been my passion since the moment I opened my eyes. The only thing I ever wanted to do was wine-making and viticulture, so I wasn’t very impressed when my Dad insisted that I do a B Comm. But I soon realised he was right – wine isn’t just farming but a business’ [Wine, 2006].

Braam worked overseas in St - Emillion. At FW3, there are numerous qualifications from wine-making to production management to business degrees. FW4 has wine-making and viticulture qualifications as do FW7, 8 and 10. In addition to the wine-making and viticulture qualifications, FW5 also has a brother qualified in sales and marketing.

12. Did you work elsewhere first?

The dominant form of work elsewhere is international exposure. At FW5, the brother who oversees the production of white wines, worked in the German wine region of Breisach. His brother obtained practical experience in marketing at Robert Mondavi in California. FW2 worked and studied in Germany. FW3 still sends the family member responsible for winemaking to Europe to expand his wine-making knowledge. FW3, initially had a link with Nederburg wines, who assisted in the training of the family in all aspects of the wine business. Nederburg (Stellenbosch Farmers’ Winery) also used to handle the distribution for FW3.

13. Describe the changes in business structure, business direction and work relationships that resulted from the change in leadership.

Structures have been reported on earlier in Section D. The resultant change in FW5 was the creation of three positions of management, as there are three sons who are directors of the business. The same is evident in FW3 where the resulting structures accommodate the children in their areas of expertise. The business direction of the farms has changed from being part bulk producers in some cases, to taking the wine from vineyard to bottle. This does not seem to be as a result of the change of leadership, but more so because of the changes in the industry as reported earlier.
14. *Describe the preparations your generation is undertaking for the benefit of future generations.*

FW10 has a structure in place for the next generation to take over the business if they wish to. The Wine group is structured into trusts of which all the children are shareholders. They can take over the management of the Wine Group or let non–family members manage it and remain shareholders. The children are still young and succession should not take place for the next ten to fifteen years. There is lack of preparation in this regard in the other family businesses, other than the winery being taken over by the eldest son. The next generation of the wineries who have not made preparations for this are still young.

15. *What is the prime objective of the winery in terms of the family?*

In terms of the dominance of tradition for these wineries, the continuance of the winery to the next generation is a wish of most of the families, however, only on the basis that the next generation will enjoy running the business and that the business is still successful. FW10 reports that it would be ideal to keep the business in the family, mainly because of the emotional stress of losing the family business. The tradition of multi generational wine making is key for the business to be transferred. All of the farms interviewed use this multi generational wine making as a marketing tool to enhance the tradition and quality of their wines. FW 2 comments that 'we talk too little about history in this country. Our biggest advantage is our heritage. Everyone always talks about the current vintage as if it’s the best ever – to sell wines of course. But only by looking at our history can we find answers, take ourselves forward and develop a culture such as they have in France. At least our family winery has four generations – that’s something you can’t buy [Wine 2006].’
GOVERNANCE POLICIES AND PROCEDURES

1. Do you have a family board or any other form of family business council?

As reported previously, only three of the wineries (FW2, 3 and 10) have a formal board, with the others relying on accountants, lawyers and labour consultants for advice, if and when required. In the case of FW2, 3 and 10, strategic issues are discussed, in terms of family and wine. Boards are used for objectivity, strategic direction and governance. Family councils are evident in FW 1, 2, 3, 4, 5 and 10, where family members meet both formally and informally to discuss family and business issues.

2. Do you have employment policies for family members?

At FW1 family members are salaried personnel and have to comply with normal employment conditions. They have to apply for leave for example. They are accepted in the farms employ because they are capable of performing the responsibilities related to the job. The rest of the farms seem to employ family members because they are family, however they are all qualified for the positions they hold as they were educated in some field of the wine business.

3. Does the business have a formal performance appraisal system for family and non-family executives?

Performance management issues for family members are evident in FW2, 3 and 10, but appear to be on an informal basis, with remuneration being in accordance with the level of responsibility. FW2 reports that business is business and that there are no favours for family. FW10 believes in identifying employees for advancement and growth and has performance measures in place to identify these people.
4. **Do you have clear communication and decision-making, role demarcation and governance structures?**

Role demarcation, in terms of responsibilities at the winery are evident, however, decision-making and communication is informally structured. FW1 reports that decisions are made immediately. The structures of the winery are not large and this facilitates informal communication as well as decision-making. The informal family council meetings are a platform for communication.

5. **Do you see your governance as a means governance structure or ends structure or a combination of both?**

Governance appears to be a combination of ends and means governance.

**FINANCIAL**

1. **Do you have estate planning?**

The families interviewed all indicated that they had individual estate planning. FW 5 indicated that they were in consultation to introduce planning for the business.

2. **Are voting shares sold outside the family?**

There was no evidence of voting shares being sold outside of the family in any of the families interviewed.

3. **Do you make a clear separation between family and business wealth?**

All wineries report financial planning with some having a clear separation of business and family wealth, although this appears to be difficult to separate
as the businesses are in a growth stage and of a capital intensive nature resulting in most of the finance being invested back into the business. FW5 reports that each of the brothers has their own estate planning. However some of the wineries have no separation of family and business wealth, because of the nature of the business. Voting shares are not sold outside the family and it is a goal of the wineries to accumulate family wealth and ensure independent ownership and growth of the business. These financial policies tend to have an effect on the growth of the business. FW10 reports that with the restructuring of the business into a Wine Group, the farm used to account for 80 percent of the cost structure, whereas today, it accounts for only 8 percent. FW10 also reports that he has paid special attention to estate planning because of the tax implications.

QUESTIONNAIRE SECTION F: STRATEGIC ENTREPRENEURSHIP

1. Do you have reward systems for innovative proposals from employees?

With the overall team focus of the wineries, every employee is regarded as an important asset to the business. The nature of wine farming requires a lot of seasonal labour in the harvesting season, when the staff complement doubles. Some of the wineries report the use of incentives [FW2] with most of them reporting fair treatment of labour with adequate pay back for work well done. FW10 have employed management who work on a profit share system. This works as an incentive for the employees.

2. Please indicate any areas of ‘newness ’in your business:

With regard to areas of newness in the business, innovation in the vineyards as well as wine-making techniques seem to be prime, although all the wineries are very traditional when it comes to their wine-making approach, which is very in keeping with the old world wine countries as reported in
Chapter two. History of ‘firsts’ for these wineries was reported on in the Section B: 2.

Change in the estate winery legislation has allowed for more innovation. Changes have been made to the Wine of Origin regulations relating to estates. They were originally the smallest category of the Wine of Origin system and in theory were single, continuous pieces of land, within whose confines wines were grown [Platter, 2005]. Exceptions diluted the concept and the estate image was further diluted when several of the high profile properties defected from the estate categorisation. This was further emphasised with the world’s focus being on terroir or single vineyards. This brought about new ruling for estates where estate wines must be produced in contiguous vineyards, farmed as a single unit and equipped with facilities that enable processes up to final certification. They are now for the first time able to use their name to brand their total output ‘estate’ as well as non-estate. This change in legislation has allowed estate wineries to increase production and use the strength of their brand for all their production.

The wine-makers see their unique positions (terroir) as competitive advantage in terms of resources as well as the tradition and passion for wine making as an asset as well as the age of some of the vineyards.

Customers and markets have opened up for the South African wine industry in general with the export market showing growth. These wineries all export wine as far a field as the UK, USA, Germany, Holland, Norway, the East and the rest of Africa. Export for FW 4, 8 and 10 is under a different label and also produce larger pack sizes because of the market demand, i.e. 750ml for the local market and three and five litre packs for the overseas market, with different wine and different labelling. FW1 believes that there should be a ‘collaborative marketing effort to promote South African wines to Far Eastern markets like China and possibly India’. FW 2 reports that ‘in the 70’s South Africa was still internationally acceptable and the wines were influenced by world trends. In the 80’s sanctions prohibited the international sale of wines, however with the dawn of democracy in the 90’s world exposure and
knowledge transfer have resulted in drastic changes in the style of our wines. The use of computers has also facilitated the availability and accessibility of knowledge [Wine, 2006].'

With regard to new customers, the majority of the wineries used to sell bulk wine to the producing wholesalers and the KWV. Most of them have stopped this as it is more profitable to take the wine from beginning to end because of the added value.

One of the biggest hurdles for these small family wineries is the distribution of their products. Some of them have formed alliances with bigger companies who handle their distribution for them – FW2’s wines are distributed by DGB and FW7’s wines by Distell. On the other hand, some of them market and sell their own wines nationally. Internationally the wines are sold through agents. Winemakers are putting more emphasis on personal selling to customers and consumers, which for iconic wines has proven to be an effective marketing method.

All of the wineries have active websites for sales and general information on the wineries and their products. IT firms manage most of these.

An interesting development for FW2 was the joint venture with other wine farms to produce a wine for the export market. This was a very successful venture and the reasoning behind it was focus, availability of volume and finance behind one brand, rather than a number of SA wineries fighting each other abroad. This wine is now available locally as well.

Innovation in product has also been evident. FW10 produced the first Method Cap Classique wine from the Rawsonville area as well as a fortified Muscat dessert wine. FW2 produced the first Merlot in South Africa. On this, FW2 comments ‘I remember being asked why we were bottling a blending wine on its own. It was an exciting time of innovation generally, even if it resulted in run-ins with the older generation.'
Although wine making remains traditional, there have been technological advances in the cellar. The wine making law has also changed to allow more freedom in terms of the wine making process which has allowed for wines to be made with lower alcohol and more fruit, which typifies the New World style of wine.

3. **What internal capabilities do you feel your business has?**

The dominant capabilities common to all the wineries were their wine-making ability and strong relationships.

4. **Do you see strategic and entrepreneurial activities as complementary?**

All the wineries report that strategy and entrepreneurship are complementary in terms of growing their businesses and in order to see what the end result will be. Although it was reported that these practices are important, there is very little evidence of strategic entrepreneurship behaviour. Entrepreneurship is far more evident.

5. **Do you have any complementary businesses?**

The main focus is on wine-making, however, some of the wineries do have other businesses related to the farm. These include farm stalls, winery tours, bed and breakfasts and an amphitheatre. As reported, some of the farms have their own bottling and lines and laboratories, whereas others did not see this as their core business and outsourced the laboratory work and used mobile bottling lines. FW7 has a bottling line, which is not in use. They send the wine in bulk to Distell, who bottle, label and distribute the product.
6. **What processes do you have in place to identify opportunities?**

FW3 has an exchange programme with foreign wineries to identify best practice and new opportunities. Chateau Margeaux, a French wine farm, consults to this winery. The other wineries also have international linkages in terms of sharing best practice with regard to wine-making. Wine shows and competitions, both nationally and internationally, are used by all the wineries to identify opportunities, identify trends and create demand for their products. All the wine farms conduct wine tastings, which are seen as invaluable tools for collecting information and comments on the wines.

7. **Do you see innovation as a critical success factor for your business?**

Innovation is seen as important especially in the wine-making process, without veering from the traditional approach to winemaking.

There was mixed reporting on the importance of innovation, mainly because of the traditional approach to wine. If anywhere, innovation was seen as a critical success factor in terms of marketing, especially when approaching the emerging market in South Africa and in terms of alliances or joint ventures when approaching the export market. Packaging and labelling innovation is an area, which is concentrated on. The screw top rather than cork is becoming an innovative factor in this industry as are comprehensible wine labels.

**QUESTIONNAIRE SECTION G: WINE INDUSTRY**

1. **What do you see as critical business challenges facing your industry today?**

One of the most noticeable factors when questioning the SA wine industry was the lack of collaboration, which is evident amongst the Australian wine-
makers. The wine farmers have little faith in WOSA or in the 2020 Vision for the industry. In fact some of them were not aware of Vision 2020. It was felt that the effort to market South African wines has not been successful and that a lot more unified work with government support needs to be done in this area.

The question of subsidies for European wine farmers poses a threat in the short term and long term if it continues as a massive support system subsidises producers who can’t sell their wine.

Another possible threat that one of the farms mentioned was the commodifying of wine and the power of the grocers [FW 3]. This was referred to in Chapter two, in discussing future wine trends, where the global grocers are looking for global supply of wine and possibly a ‘coke’ type of wine. This factor, however, did not bother the rest of the wine farmers as they believed that they are in the quality sector of wine and firstly, do not have the volume to compete at that level and would rather remain niche focused in terms of quality and rarity. The focus is on better rather than more.

‘The global wine glut is affecting all wine producers which has resulted in the good wine-makers investing heavily to get better and the bad winemakers being squeezed out.’ Worldwide production hit its highest level in 20 years in 2004, and the quality sector seems to be the only sector which will survive this. This is why our family wine business concentrates on less better wine rather than more.’

Black Economic empowerment is a factor that most wine farms are dealing with. FW3 has developed one of the first empowerment companies; Thandi wines, where the ownership is shared with the community and workers. Most farms are in the process of dealing with BBBEE, but do not have formalised structures completed, others like FW1, have included a shared ownership in bottling lines.
FW2 sees the future of the wine industry as exciting. ‘The future will be a challenging and interesting one’. One of the challenges lies in the many new varietals, which can be made in the traditional style of winemaking using wood maturation and having higher alcohol. ‘The problem is that these varietals are foreign to the South African market, and as a result would sell in very small quantities.’

Wine education was also identified as an important challenge for the future. Wine consumption in South Africa has declined from 9 litres per person per annum to 7.5 litres per person per annum. FW’s 2, 6 and 8 agree that the industry has to embark on an education programme for wine to become part of a lifestyle. This would provide a broader base of consumers, which would increase production. The other benefit of education is that it would increase the quality sector of wine. Research has shown that the more educated the consumer is about wine, the more they tend to trade up in terms of their wine of choice.

2. **What do you see as critical business challenges facing your company?**

Critical challenges as seen by all the wine-makers are to make wines of exceptional quality in global terms. This challenge has been identified in Chapter two, when looking at trends in the future of wine. It was recommended that processes such as benchmarking best practice all over the world be used both in the vineyard and in the cellar. Innovation can play an important role here both in the vineyard and the cellar. FW7 would rather make less better wine. One of the challenges facing the wineries is the wide variety of choices facing the consumer today [FW7 and 8]. FW7 is also very aware of the environmental influence of nature of the business. Effective distribution and marketing is also a challenge identified by FW2. This is evident locally and abroad. FW2 also sees one of the main challenges as being responsible for the product from the ground to the bottle. This
includes selecting the best ground for the varietals and the best wine-making techniques.

One of the biggest concerns is the shrinking domestic market. As a producing country, consumption is low. FW10 reports that this has been impacted ‘by the 1 million whites that have left the country.’ The main market ‘stick with traditional beer and spirits.’ FW1 comments that ‘we have to get our black market to drink wine.’

3. **How do you plan to manage or overcome these challenges?**

FW5 believes that hard work will be the solution to these challenges. FW7 believes that wine farmers need to have a more business like approach to their businesses. They cannot only focus on wine-making. However, in terms of the wine world, the production of good quality wines at good value, which are well marketed is essential. ‘You can make the best wine in the world, but if nobody buys it, it’s useless.’

4. **Which skills will leaders of wine businesses need to develop in order to compete successfully in the future?**

FW5 reports that the leaders in this industry need to be able to market South African wines. FW7 supports this view. FW7 also believes that business training for winemakers is essential. The other family wineries concur with this opinion and add that ‘not only is wine-making important, but the marketing of it as well. We need to wine a lifestyle in our local market.’

5. **Are you aware of the Vision 2020 for the wine industry, and are you in agreement?**

There appears to be apathy with regard to the support from Government and wine bodies with regard to their assistance in the industry. Points that were highlighted were the Agricultural reform, BBBEE and the lack of successfully marketing South Africa as a brand. The wine farmers did not have an in -
depth knowledge of Vision 2020, apart from FW3. The general feeling was that if the Vision helped, it would be good for their business.

**QUESTIONNAIRE SECTION H: GENERAL**

1. *What advice would you give other families in the wine business?*

Advice was varied and included the following:

FW5 placed emphasis on ‘correct financial procedures as well as thinking big without outgrowing your capabilities.’ The wine industry has been reported to be very capital intensive, with a long wait for return because of the time that the vines take to grow as well as the maturation time for red wines. FW2 placed emphasis on concentrating on producing the best possible wine and planting the best vines suited to the region. He has an interesting view on the lifespan of the winemaker: ‘if you plant a vineyard at age twenty-five, you can make wine thirty times from that vineyard. At age 56, you can replant the vineyard. As a result, you have very few opportunities in your life as a winemaker to plant vineyards and have approximately 35 chances to make wine if you live to age 60’.

FW2 and 3 believe in including children from the beginning so that they develop a passion for wine and so that they have knowledge of the business and a sense of responsibility and familiness. This is in keeping with the advice given by FW1, 7 and 10, where they advocate that family discussions at home facilitate the process of children being involved in the business.

FW7 emphasises the importance of wine and business training. In keeping with this is the importance of appointing competent people, which was proposed by FW1, 2, 3, 4, 7 and 10.
2. **What advice would you give other families approaching leadership transition?**

FW1, 2, 3, 4, 5, 7 and 10 advise that family members must be able to get along, both inside and outside the business for the succession to be smooth. It was also reported that there should be clear communication regarding the taking over of the business, regardless of what that process will be. If it is communicated and accepted, there will not be objection. The early communication of the process will also allow for discontent to be voiced prior to the succession taking place and thus allow time for differences to be sorted out.

3. **What do you think makes a family succeed in business?**

FW2, 3, 4 and 5 advocate ‘hard work and creating a strong family bond built on trust and respect.’ Focus on family pride and tradition is also advise for succession and success in family businesses. Specific role demarcation is a prerequisite so that all family members and employees have defined areas of responsibility and accountability. Management performance measures are also important in making a family business successful according to FW10. FW7 believes in his father’s philosophy of treating people who work for you fairly and rewarding them appropriately. Relationships are key to family businesses, according to FW2, 4, 5, 7 and 8. Families are built on relationships and this relationship focus must be expanded to include relationships outside of the family.

8.4 **INTERPRETATION**

In terms of the family background of the research participants, a common thread is the strong heritage and family culture, which permeates all these family businesses. They have strong South African historical links and resulting strong family culture and pride.
This research concurs with research done by Santiago [2000] in Philippino family businesses, where it is evident that when a family adopts a succession process that is consistent with the family values, the chances that the succession will be smooth, increase, regardless of whether there was formal planning. Although the wineries report no formal succession planning, the choice of the eldest son is a plan in itself. This has to do with the evidence of a strong paternalistic family culture. Events are managed in terms of upholding the value family unity. Family values and culture are an important family business element [Astrachan, Klein and Smyrnios, 2002].

Another commonality amongst the family wineries is that although they have survived third and fourth generational transfer, the management of the business is not top heavy. The Family Winery with the most positions in the management structure is FW3, where there are six positions on a management level. As the research indicates, the eldest son has taken over the control of the business. If all the children were to have taken over the running of the business, it would have resulted in more intricate structures and possibly more conflict. Clear role demarcation and areas of expertise and responsibility have also facilitated this process.

Research on successful succession as focusing on succession planning is not enough, as the chosen successor might not be the new leader. Dunn [1999] agrees that the transition to ownership needs to be understood for successful succession.

The difference between ownership transition and leadership transition is key. The two must coincide. Mere succession to a business is no guarantee of success [Tan et al, 2001]. The entrepreneurial vision and tacit knowledge, which is embedded in the founder must be transferred as this a source of competitive advantage [Cabrera-Suarez, DaSaa-Perez, Garcia-Almeida, 2001; Tan et al, 2001; Hall, Melin and Nordqvist, 2001]. This is very evident in terms of the wine-making tradition that is transferred in these family businesses.
Family members' connections with business can profoundly affect their individual self esteem, as well as the quality of their relationships within the family [Davidow et al., 1990; Gersick et al., 1997; Handler, 1989; Hoover and Hoover, 1999]. All these family wineries are very proud of the family tradition as well as the wine-making tradition. As indicated in the research, the ease of transition with regard to internal and external stakeholders indicates that these wineries have paid special attention to relationship issues [Morris et al., 1997; Gersick et al., 1997; Ward, 2004]. It is suggested that although they do not show evidence of a 'relationship charter', this is a value of the families and is used as a vehicle for strategically managing relationships within the family, as much as relationships must be managed with suppliers or customers.

This strong relationship network almost seems to replace the need for a board in terms of governance. The wineries have good relationships with their lawyers, accountants as well as with suppliers, which seems to be adequate for most of the wineries in terms of governance structures and advice. This strong relationship focus also allows for informal communication channels and a team focus in terms of management style.

The strategic entrepreneurship issues relate particularly to focussing on the improvement of wine making in terms of vineyard and cellar practices as well as getting the wine to market. The estate family wineries focus on niche iconic wines where less is more in most cases. The second label wines that they produce fall into a different category and price point, but the flagship brands carry the image and tradition of the winery reflecting the specific terroir. On asking one of the wineries [FW4] about complementary businesses in the form of a restaurant on the estate, the comment was that they would not take the chance of a memory being blurred by a bad meal, where they know that the wine memory will be good and as a result, this is their focus and their core business focus.

The family wineries interviewed all showed evidence of ‘firsts’ as reported earlier in this Chapter. The winery founders and those who have taken over
Leadership have pioneered new wine making styles and techniques as well as the use of new varietals and facilitated the change in the Wine of Origin law, which is in keeping with strategic entrepreneurship.

The literature shows that wines are trading up in terms of quality on a global scale. The following of tradition in terms of making wine and aspiring to make of the best wines is in keeping with this global trend. Again, limited supply of iconic niche wines with added value is in keeping with this global trend. The lack of solidarity within this sector of South African wine producers is a concern in terms of international trading and this points to a lack of confidence in the official wine bodies that are supposed to be promoting brand South Africa.

Advice to family businesses and particularly wine family businesses appears simplistic. The strongest issue is the strong family bond and respect. In terms of taking family members into the business, the emphasis was on strong role demarcation, open communication channels, in terms of wine, introduce the children to the business early so that they develop a passion for it and ensure that they can continue the strong wine making tradition. To be an industry leader, the business must acquire knowledge and have access to resources. This is evident in terms of the knowledge transfer in terms of wine-making and the areas where the wine farms are located. This is in keeping with family business literature, again with the focus on relationships.

The lack of strategic planning is a concern as well as the lack of family business issues as indicated in the literary review. These families have managed to succeed for a number of generations built on strong family values and good wine-making territory and tradition as well as the brand. Future research in terms of the incoming generations will be interesting to see if this base is strong enough to ensure further successful succession.
It is becoming more obvious that not all family businesses are the same [Gudmundsun et al, n.d] and researchers and consultants should be aware of the literary models, but treat each family business individually as all have differing circumstances.

8.5 CONCLUSION

Chapter eight has dealt with the research findings from the interview process. The findings have been discussed. It could be assumed, that successful succession would have more parallels with the literature review however, little evidence of the proposed theory is evident in the real world, which is in keeping with other family business research.

Chapter nine will conclude with a summary and recommendations
CHAPTER NINE

SUMMARY AND RECOMMENDATIONS

9.1 INTRODUCTION

Chapter nine will include an overview of the research conclusions in relation to the research objectives. A model based on the findings will be proposed to promote strategic entrepreneurship in family estate wineries. The chapter will also include recommendations for family estate wineries as well as recommendations for further research in this field.

9.2 STUDY OBJECTIVES

The main objective of this study was to develop a model to promote sustainable strategic entrepreneurial behaviour of family estate wine businesses in the South African wine industry.

The initial step was to undertake a comprehensive literature study in the following fields:

- The world of wine was discussed in Chapter Two. The study of the world of wine was important as a base in terms of the approach to the study to identify trends and key drivers in the industry. The definition of wine terms and concepts were defined for this study as well as a discussion in terms of the historical importance of the wine industry globally as well as in South Africa.

- Family business and specific idiosyncrasies pertaining to family businesses were identified from the literature in Chapter three. These
included a family business definition in terms of this study as well as
the unique characteristics of family businesses. Governance, conflict,
life cycles and succession were also discussed in terms of findings
from the literature.

- Chapter Four identified literature findings in terms of Strategic
Planning - An Overview for Family Business. The overlap of the
family and the business in terms of strategic planning was reviewed.
The importance of strategic planning for all business was discussed
as well as entrepreneurship. Definitions of strategic planning and
entrepreneurship were given in terms of this study. The importance
and the interface of strategy and entrepreneurship were highlighted,
which culminated in Family Business Strategy and models from the
literature being highlighted. The importance of metrics in terms of
measuring the implementation of strategy was discussed in closing
the chapter.

- Chapter five identified key drivers from Chapters 2, 3 and 4 that are
pertinent to this study. A model was developed to highlight these
drivers.

The following sub problems were dealt with in order to solve the main
research problem:

- The identification of a strategic entrepreneurial model for the wine
industry as developed in Chapter five. The model was based on
literary findings in Chapters two, three and four and consists of three
main components: the wine industry, family business and strategic
entrepreneurship. These components served as directives for the
questionnaire and the interview process documented in Chapters
seven and eight.

- The evaluation of selected family owned estate wineries against this
model - this evaluation was reported in Chapters seven and eight.
The model that was developed in Chapter 5 is re-represented in Chapter nine. This model is shown in Figure 9.1. The model is the researcher’s adaptation of the Timmons [1999] entrepreneurship model, combined with the drivers identified from the literature in terms of the literary research findings. This model is reviewed in terms of the empirical findings to find correlation between the two to provide guidelines to improve strategic entrepreneurial behaviour for family owned estate wineries.
Figure 9.1 Strategic Entrepreneurship Model for Estate Family Wineries

Source: Researcher’s adaptation of the Timmons model [1999]
9.3 EVALUATION OF RESEARCH FINDINGS

Research findings and conclusions will be discussed around the proposed model. The interview results suggest that as indicated in family business research, that the models and proposals by researchers are not followed and that every family business needs to be handled as individuals as they do differ.

9.3.1. Family Business Findings

Family business drivers identified from the literature include:

Research findings by Carlock and Ward [2001], Ward [1994], Tanewski et al [1988] and other family business researchers show that strategic planning processes and resulting strategies of family businesses differ from the processes and strategies of non-family businesses because of the influence of the family on the business and the resulting contradictions that arise between the family and the business systems. The advice from research is that they should develop business family strategy, with the emphasis being on business first. However, the findings from this study indicate that most of the family wineries interviewed do not have a strategic plan in place, with the exception of three of the wineries (FW2, 3 and 10) who have very well thought out strategies encompassing both family and business. This equates to thirty percent of the wineries interviewed. This concurs with research findings of the American Family Business survey conducted by Arthur Anderson Centre of family business research [1995] in which it is evident that only 51 percent of family businesses have a strategic plan and that in 35 percent of these cases; the plan is not shared with management. This point was discussed in the Questionnaire in Section D.

FW10 shows evidence of clear strategic planning linked to two of the most important elements of Strategy, being a time frame and measurable objectives. The current, controlling owner put a ten-year plan in place to grow the business from a wine farm to a wine group. This approach to the
The winery has entrepreneurial aspects as there is evidence of growth and innovation and effective utilisation of resources - the exploitation of opportunities, which will create competitive advantage. This relates to the research objective – to promote strategic entrepreneurial behaviour. This plan encompassed the business as well as the family planning as the incoming generation have been made shareholders of the wine group and it allows for management to run the winery should none of the children wish to take the business over.

FW3 has strategically structured the family business in terms of ownership, with the eldest and only son owning 50 percent of the business and the other 50 percent being shared between the four sisters. The parallel planning of business and family was discussed in Chapter 4. This strategic behaviour is evident to a lesser extent in the other wineries interviewed as they are based and structured on the first born son taking over and managing the business with little long term strategy to support this, other than family tradition.

Clear demarcation of roles was identified as the second family business driver. If roles and responsibilities are clearly defined, it reduces conflict and increases responsibility and accountability. Findings from this study show clear demarcation of roles with a focused team effort at all the family wineries. Role demarcation is more often than not in line with the education of the individual. FW5 has the leadership and roles split equally between the three brothers who are directors. They each have specific areas of responsibility: sales and marketing; red wine-making and white wine-making. FW3 also indicates definite role demarcation, being general management, wine-making, production, marketing and project development, eco-tourism and finance. This clear role demarcation is also evident in FW1, 2, 4, 7 and 10 where each member of the family or staff are responsible and accountable for specific areas and functions pertinent to the winery.

Combined with role demarcation is communication. One of the strengths of family businesses is that they are relationship bound. This is very evident
from this study. Not only are relationships strong within the family business, but also with other stakeholders outside of the business. FW5, 7 and 8 believe that relationships are what make family businesses work. This was discussed in the interview under Section D. Communication is informal and it seems to achieve the desired outcome because of the strong relationships and family value of trust. Trust plays an important role in the governance of organisations [Steier, 2001; Gersick et al, 1997; Braddach and Eccles, 1989; Ring and Van de Ven, 1992].

Governance elements appropriate to life cycles indicates the type of governance required, depending on not only the stage of the business in the life cycle, but also the stage of the founder/leader in his/her life cycle. Here the most important issue is the succession process. The succession process appears to be one of the biggest stumbling blocks for family businesses, in that they do not plan for succession.

Succession is the transference of ownership for the purposes of continuing family ownership, which must be addressed for the business to survive and be passed on to subsequent generations [Davis et al, 1998; Connolly and Jay, 1996; Fritz, 1999]. Connolly and Jay [1996:157] state that issues of management succession and how to solve them depend to a large extent on the relationships among second generation family members, their relationship with the founder, the extent of the desire to maintain the business as a family business and the best and most practical way to resolve management succession. This relationship among the incoming generation is very evident in the wineries interviewed for this research. There is an acceptance that the eldest son will take over the business and in 80 percent of the cases, acceptance that the daughters will not get involved in the business.

Zaudtke & Ammermann [1997:55] propose that typically only one in three businesses is successfully transferred to the second generation. Survival of a family business into the third generation is a rare occurrence. In this study ten wineries have been successfully transferred beyond the third generation,
without a structured succession plan. This is evidence in support of the research by Connolly and Jay [1996] in that if the relationships between the incoming generations are solid and sound that the succession process will take place more easily. Successful succession is a prerequisite for sustainability of the family businesses, which is part of the research objective.

The successful succession shown in this study is evidence of good parenting, strong family bonds and values and involvement of the children in the business from an early age. The decision for the first-born son to take over the business is one of choice and this has also attributed to the successful succession. This results in the finding that smooth succession will take place if the succession process is consistent with family values, wherein families who value family unity and tradition will work hard towards a smooth transition to ensure survival of the family business and tradition and that the lack of formal planning is replaced by exposure to the business at an early age [Santiago, 2000] (see Figure 9.2).

**Figure 9.2 A Succession Model for Family Estate Wineries**

Source: Researcher’s own construction adapted from Santiago’s Model [2000]
The basis for good family governance is good parenting, as this means that certain values required to execute a family governance model over time are present [Martin, 2001; Tan and Fock, 2001; Ward, 2004] where the contribution and individuality of each member is valued, whilst high standards of work ethic are predetermined. The values, ideals and sense of purpose are an essential base [Neubauer and Lank, 1998; Gersick et al, 1997]. Values may be the greatest resource a family business can have [Family Business Brief, Vol 2, no 4; Aronoff and Ward, 1992; Tan and Fock, 2001; Ward, 2004].

Family adds additional dimensions to the transactions, which normally revolve around trust and the management of relationships. Relationships were identified by the families interviewed as an integral part of their value system and what their businesses are built on both with internal and external stakeholders to create competitive advantage (FW2, 3, 4, 5, 7 and 10). The notion of family implies bonds that, if used effectively, can create strategic advantage [Braddach and Eccles, 1989; Ring and Van de Ven, 1992; Steier, 2001].

As pointed out by Carver et al [2001] and Neubauer and Lank [1998], the definition ‘a system by which companies are directed and controlled’ is means orientated, whereas, ‘a system of structures and processes to secure economic viability as well as legitimacy of the business’ is ends orientated. In the first definition, directing indicates decisions that are strategic in nature and controlling indicates oversight of management performance. In the second definition, viability indicates long-term sustainable development of the business and legitimacy indicates acceptance from society [Neubauer and Lank, 1998].

In the early stages of the family business, management and the board are invariably made up of the same people, resulting in the fact that both the needs and means aspects of governance need to be addressed at all stages of the family business regardless of who is responsible. In family business,
the family, ownership and management are intertwined [Craig and Lindsay, 2002; Hoy and Verser, 1994; Neubauer and Lank, 1998] which results in overlapping of these variables, which in turn affects decision-making.

This research indicates that there is a duality of governance in that the means and ends governance issues are dealt with the family in 70 percent of the farms interviewed as the decisions are made by the family. In the remaining 30 percent of the wineries interviewed there is a more of a split in terms of the ends and means governance as the board deals with the more strategic issues.

9.3.2. Strategic Entrepreneurship Findings

Family businesses fall under the discipline of entrepreneurial studies. This has been debated by researchers as the question is raised as to whether the role of the family founder is compatible with the role of family business leaders as entrepreneurs emphasise individualism with a team focus, whereas, family business leaders are group focused in terms of the family [Craig and Lindsay, 2002; Gersick et al, 1997]. Timmons [1999] in his entrepreneurship model, which was adapted to create the end model of this research, ignores the family aspect, as entrepreneurship can occur in family and non-family firms, where the same entrepreneurial aspects apply. The influence of the family on the business makes the difference [Carlock and Ward, 2001; Neubauer and Lank, 1998] and thus in family businesses, the family dynamic cannot be ignored in the entrepreneurial process.

Strategic entrepreneurship has been defined previously as the interface between the two disciplines where cognisance is taken of the necessity to create new opportunities in being entrepreneurial whilst creating competitive advantage by being strategic.
Drivers for strategic entrepreneurship identified from the literature were identified in Chapter five and will now be discussed in terms of the research findings.

Innovation as a base for strategic advantage is evident in the viticulture and viniculture practises. The wineries are all focused on creating good quality wine and are being innovative in doing so without losing the quality of traditional winemaking. As reported in Chapter eight, the wineries that formed part of this research all show evidence of developing ‘firsts’ in the industry, emphasising their innovative ability.

Opportunity and innovation are evident in the new laws governing estate wineries as well as the opening of new markets internationally to the South African wine industry.

Focus on intangible capabilities is one of the most evident in terms of the research findings as the intangible capabilities of the family relationships; family and wine tradition have developed advantage for these wineries. These strong relationships appear to be a cornerstone for these family wineries.

Complementary strategic and entrepreneurial action is minimally evident, but not structured, as it was reported that the majority of the wineries do not have a strategic plan in place. Emotional attachment to family tradition, culture and values can hinder strategic decision-making and growth. A possible conclusion about family estate wineries is that they are possibly constrained in terms of the duplicity of the family and business systems and in terms of the Wine of Origin law demarcating their production of wine. This has only changed this year and it will be interesting how the businesses use the change in law to pursue entrepreneurial opportunities.

Strategic entrepreneurial behaviour is evident in the utilisation of wine related resources as well as new markets (FW1, 2, 3, 4, 5, 7, 8, 9) as well as
the introduction of new product lines (FW3, 4, 5 and 10) and joint ventures (FW2, 3). Complementary businesses are also evident in FW3 and 10.

They tend to run the wineries as entrepreneurs based on the fact that they are small in structure and have a dominant team focus and show innovation in terms of utilisation of resources, technology and skills, with little focus on strategy generally.

9.3.3. Wine industry findings

The wine industry of the future will require an innovative culture with responsive adaptation of resources, technology, skills, R&D, institutions and markets. The staunch traditional approach to the making of wine, it appears, will still be of paramount importance with an innovative approach to packaging, which includes labels, closures and information on the labels, as well as marketing of the product. All the wineries interviewed are doing innovative things in the vineyards, with regard to the cellar, bottling, closures and labels.

Positioning wine as a lifestyle product - natural, healthy, made in an environmentally friendly way is one of the biggest opportunities for the wine industry. As reported in Chapter two, wine, in particular good quality red wine is in demand globally because of the health aspects. Wine farms have replanted vineyards to include more red varietals to enable resource availability to accommodate this trend. Being traditional wine-makers, the wineries interviewed pay prime importance to quality, which includes the making of wine in the traditional natural way, so they are positioned to take advantage of this trend.

Value adding approach in terms of quality and brands is another wine aspect where the research participants are positioned to take advantage. The fact that they have stopped selling wine in bulk to the wholesalers and are
adding value from the vineyard to the consumer should make them more profitable as they manage the value chain.

The new generation of ownership has paid attention to economies of scale and resource capacity, by increasing cellar capacity as well as buying new land to increase the resource availability. FW5, for example bought an additional farm in the 1970’s. FW1 recently installed a bottling line, which is a BBBEE venture – including the farm labourers as partners. FW2 has systematically replanted their vineyards the old cellar has been expanded with stainless steel tanks, the best equipment and a maturation cellar with a capacity for 1000 barrels. FW3 has built a made to measure cellar for the making of hand crafted premium wines.

FW4’s cellar was built in 1941 and extended in 1998 with the addition of a maturation cellar for 900 small barrels. Its current capacity is 1.1 million litres. The introduction of new technologies has aided this as well.

The democratisation of South Africa saw the world markets opening up for wine farmers. After ten years, it is interesting to note that it is the quality sector that has remained strong in exports even with the value of the rand strengthening. The vision of the wine-makers to make the best wine will enable them to compete in this quality sector globally. These wineries have won numerous awards, which enhance their global competitiveness. FW7 won the Diner’s Club Winemaker of the Year in 1998; FW1 won it in 2000, FW5 in 2002. FW4 won the General Smuts Trophy for the best overall young wine in 1997. The awards are numerous and include both local and international awards.

The expansion of the consumer base and government involvement go hand in hand in terms of wine education and marketing as a brand locally and abroad. This also requires commitment from all players in the industry, which according to the research is lacking. Vision 2020 for the industry is of no value if there is no buy in from the producers and exporters of wine. The
resource and opportunity sector of the model are supported by the research findings.

9.4. FINDINGS IN COMPARISON TO THE MODEL

As is evident from a comparison of the findings to the model based on the literary review that the application is lacking in terms of theory application of the drivers. The question must be asked – can all family businesses be treated the same with a generic model? Of all the key areas, the dominant evidence of correlation with the literature is in the area of wine-making – their core business.

With reference to Timmons’ model of entrepreneurship, the three key drivers of team, resources and opportunity appear to be balanced and there is evidence of fit. The team being the family as well as the employees, who together utilise the resources available on the farms to make the quality wines associated with these family farms. If the study were on the entrepreneurial behaviour of these family farms, there would be strong correlation with the entrepreneurship model.

With regard to the wine industry drivers, there is once again strong correlation with the literature study in Chapter two and the evidence from the research. The wine drivers are indicated in the model under resources and opportunity as well as the team. The resource utilisation refers to the vineyards, wine-making skills and cellar management, which are all evident in the research as well as the technical expertise of the viticulturalist and wine-maker. Opportunities are evident in wine innovation, new markets alliances and joint ventures and complementary businesses, which all wine farms are participating in to some level or another.

It is in the area pertaining to family issues, that the literature and the research show little correlation in terms of what family business writers indicate should be the process. However, the findings are in keeping with other family business research, where the findings have been the same as
this research with regard to the family businesses not complying with the proposals of the family business researchers.

With regard to succession, the families interviewed have managed to pass through more than three generations, which is above the norm, without formal succession planning in place. The research indicates that the strong family bonds and tradition seem to have become an informal form of succession planning. It is evident that the foundation of their succession is an understanding of how family values and ethics translate into behaviour as well as respect for the wishes of the patriarch. How a family business is managed depends on the values that the family lives by and brings to the business. The succession is gender biased in all the families interviewed. The simple structures of the family businesses together with the fact that there are good relationships and that the children are included in the business from an early age facilitates this process. Family unity, respect for siblings and mutual respect and understanding are key factors evident from this research.

As indicated in the literature, governance for family owned businesses differs from non-family owned businesses. Family council, which is made up of family members, governs family businesses and some are governed by boards wherein the potential negative influence of the family on the business can be neutralised. The majority of the families interviewed showed no evidence of boards, however, where more than one family member was involved in the business, there is evidence of family council. The family businesses that have outside boards are the ones that showed evidence of strategic planning and growth in terms of complementary businesses and direction for the family business going forward.

The literature advocates boards for this reason and although there is little evidence of boards, it is advocated that family businesses consider the benefits of a board particularly in terms of improving governance and strategic planning. A family board would also assist in conflict resolution.
The lack of formal or deliberate strategy is a concern as it has been reported that the world of wine is poised to change over the next few years. The traditional quality sector is predicted to remain intact and grow, but there are many categories to wine at different price points, which could perhaps provide additional income, profitability and utilisation of resources in terms of growing these family wineries through alliances and joint ventures. This lack of strategic focus is indicative of family businesses that tend to have an inward focus and do things as they have always been done. Strategic planning is vital for these family wineries to position themselves for the industry changes identified. The literature advocates parallel planning wherein the family and business planning occur concurrently so that the focus remains on both and is not biased to the family or the business. This planning includes the family issues of succession, family involvement in the business as well as planning for the future growth of the business. As indicated in Figure 9.1 the board, family strategic planning and business strategy become the core in that they influence each other as well as the management of the resources, the team and the opportunity.

In conclusion, the model proposed in Chapter Five based on the literature review and discussed in Chapter Nine shows correlation between the literature and the research findings, with some areas showing stronger correlation than others. As a strategic entrepreneurship guide for family businesses in the wine industry, the model covers the key drivers and indicates the linkages between them as determined by the literature review. The research findings require that the influence of family values and the family bond be highlighted in the model. The model has been included in Chapter Nine for ease of reference and to indicate these changes.
9.5 SUGGESTIONS FOR FUTURE RESEARCH

Based on the results of this research it is suggested that the following future research be undertaken:

- A single case study on one of the participant wine farms devising and implementing the drivers from the model that are lacking;
- A single case study on one of the participant wine farms to test the implementation metrics mentioned in Chapter four as a scorecard to provide pointers for estate family business wineries.
- A comparative study to test the model in Old World wine producing countries;
- A comparative study to test the model in other New World wine producing countries.

9.6 CONCLUDING COMMENTS

Although the literature points to certain steps in terms of family business survival, it is imperative that family businesses be treated as individuals as the dynamics for each seem to be different and unique. Over and above this, the impact of the industry in which they operate needs to be taken into account in terms of strategic environmental influences.

This study has shown that family wineries have managed to survive over multiple generations without following the rules, except in their core business – that of wine making and entrepreneurship. The next generation coming into the business might be different and although they have managed to survive thus far, maybe cognisance of the theory needs to be taken. On interviewing the participants, there is definitely a need for help in terms of the future of the business and it is hoped that this study will aid in that regard.
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July 2005.

Thank you for agreeing to participate in this research.

Your input as a family business winery that has been passed on through generations will be invaluable in terms of lessons learnt, so that a model, which can assist younger family business wineries that still have to go through that process can be developed.

I envisage and hope that the findings of this research, will not only be valuable to Family business wineries, but to family businesses in general.

The research method chosen is the case study method, where in-depth interviews will be conducted to get valuable insights as to best practises in family business wineries with regard to governance, strategic entrepreneurship and the wine industry in general.

Please indicate whether you would allow your family and farm names to be mentioned in the research findings, or if you would like to remain anonymous.

The following statement indicates the objective of this research:

*To develop a strategic entrepreneurial model to promote sustainability of family businesses in the South African wine industry.*

The research findings will be sent to you for your interest.
Yours sincerely

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QUESTIONNAIRE

This questionnaire has been developed to encourage discussion around areas of value to the research objective. The questions are intended to act as pointers, however should you feel that any other issues are important, please feel free to mention them. It would be appreciated if you have any supporting documentation to add to the interview process.

A. FAMILY BUSINESS DEFINITION

‘A family business is one that has been started by an entrepreneur/founder and eventually progresses to being owner managed and then results in more than one member working in the business, which leads to a family partnership. The business is expected to be passed on to succeeding generations of the family, sometimes through marriage, which leads to sibling partnerships and eventually family syndicates where the descendants of the original founder own or control or participate in and/or benefit from the business.’

Does your family business comply with this definition? Yes / No

If yes, please continue with the questionnaire.
What generation of the family manages the business?

B. FAMILY BUSINESS HISTORY

1. Describe how your family business began.
Year?
Why?
Who started it?
Any other information about the history of the family and the family winery?
2. **Describe how your family business has grown:**
   Structure
   Employees
   Market share
   Financially
   Product range and new products
   Assets - fixed assets
   New markets
   Other businesses
   Other

C. **FAMILY STRUCTURE AND RELATIONSHIPS**

1. Describe what it was like growing up in your family –
   a. Was there a favourite child?
   b. Was the family business discussed at home?

2. Describe your relationships within your family

3. Is there any reason why there are family members not involved in the family business?

4. Describe how conflict is managed in the family

D. **BUSINESS STRUCTURES AND RELATIONSHIPS**

1. Describe how your organisation is currently structured.

2. Describe the responsibilities of each of the family members working in the business.

3. Describe your management style
4. Describe the relationship between and among family members in the business setting.

5. Describe the influence if any, of family structures, relationships and family themes and values on the business.

6. Describe how business decisions are arrived at.

7. Are non-family members included in decision-making?

8. Describe how conflicts in the business are resolved.

9. Has a strategic business plan been developed which considers both family and business issues? Please elaborate as to whether there is a family strategy and a business strategy and whether they are developed concurrently.

10. Do you have a personal strategy?

11. Is it a prime objective to maintain/enhance the lifestyle of the owner?

12. Do family objectives have priority over business objectives?

E. GOVERNANCE

SUCESSION MANAGEMENT

1. Describe how and when the business was transferred from one generation to the other.

2. Is the survival of your business as a family business a prime objective?
3. Was there a succession plan?

4. What prompted the transfer?

5. If conflicts resulted, how were they resolved?

6. Is there a succession plan in place today?

7. Describe the selection criteria used for the leadership transition.

8. Describe the reaction of the successor and the rest of the family members, before, during and after the assumption of leadership.

9. Describe the reaction of other internal stakeholders (employees, non family members) and external stakeholders (suppliers, distributors, etc).

10. Describe the preparation your generation undertook before assuming their current positions.

11. Did you receive special education?

12. Did you work elsewhere first?

13. Describe the changes in business structure, business direction and work relationships that resulted from the change in leadership.

14. Describe the preparations your generation is undertaking for the benefit of future generations.

15. What is the prime objective of the winery in terms of the family?
GOVERNANCE POLICIES AND PROCEDURES

1. Do you have a family board or any other form of family business council?

2. Do you have employment policies for family members?

3. Does the business have a formal performance appraisal system for family and non-family executives?

4. Do you have clear communication and decision-making, role demarcation and governance structures?

5. Do you see your governance as a means governance structure or ends structure or a combination of both?

FINANCIAL

1. Do you have estate planning?

2. Are voting shares sold outside of the family?

3. Do you make a clear separation between family and business wealth?

F. STRATEGIC ENTREPRENEURSHIP

1. Do you have reward systems for innovative proposals from employees?
2. Please indicate any areas of ‘newness’ in your business:

   a. Resources
   b. Customers
   c. Markets
   d. Distribution
   e. Products
   f. Knowledge
   g. Alliances
   h. Networks
   i. Technology
   j. Skills
   k. Other

3. What internal capabilities do you feel your business has?

4. Do you see strategic and entrepreneurial activities as complementary?

5. If yes, why?

6. If no, why?

7. Do you have any complementary businesses?

8. If yes, please elaborate.

9. What processes do you have in place to identify opportunities?

10. Do you see innovation as a critical success factor for your business/

   a. If yes – are there any particular areas of importance?
b. Processes
c. Marketing
d. Alliances
e. Joint ventures
f. Other

G. WINE INDUSTRY

1. What do you see as critical business challenges facing your industry today? In the future?

2. What do you see as critical business challenges facing your company?

3. How do you plan to manage or overcome these challenges?

4. Which skills will leaders of wine businesses need to develop in order to compete successfully in the future?

5. Are you aware of the Vision 2020 for the wine industry?

6. If yes, are you in agreement with it?

H. GENERAL

1. What advice would you give other families in the wine business?

2. What advice would you give other families approaching leadership transition?

3. What do you think makes a family succeed in business?