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ABSTRACT

DOCTORAL THESIS

**MANAGEMENT OF INTERGENERATIONAL TRANSFER OF FAMILY
BUSINESSES IN THE WINE INDUSTRY**

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ABSTRACT

MANAGEMENT OF INTERGENERATIONAL TRANSFER OF FAMILY BUSINESSES IN THE WINE INDUSTRY

A. Objectives

This paper aims the penetration of the process of transferring control and ownership of the family business to the next generation, regarded as one of the most critical stages in the business development in the context in which the main route of entry into viticulture remains intergenerational transfer within the family, by analyzing succession from the perspective of family, management and ownership systems and by identifying the main inducers of agency conflict generated by the inheritance process and proposing governance mechanisms specific to the family businesses.

Basically, the research has the following *objectives*:

- emphasizing management features in family wine businesses;
- positioning Romanian wine industry in the present European context;
- describing and critically analyzing the main methods, techniques and tools applied in the management of family businesses in the wine industry;
- performing a strategic analysis of the potential of development regions to achieve sustainable tourism in the vineyard and cellar;
- emphasizing human resources features specific for the agricultural wine sector and relevance of types of knowledge and learning pathways in the succession of family businesses;
- exploiting each of the strengths and suggesting structures and processes to neutralize the deficiencies created by the interface between the family system and the business system;
- deeper theoretical and empirical understanding of how family businesses are governed, given the governance structure, the existing corporate cohesion and alignment, professionalization of management, succession, family and business relations and vice versa, and the emergence of agency conflicts;
- identifying the main actors in conflict in family businesses in the wine industry;
- identifying the factors influencing on the level of conflict;
- comparing family and work relationships in family businesses with different management structures;
- emphasizing features of the intergenerational transfer management in family businesses in the wine industry;
- identifying the characteristics of family wine business governance in French and Spanish geographical environment and comparing with those in Romania;
- developing and proposing a relationship model between the agency conflict and governance in family businesses to allow owner-managers in the wine sector to identify the factors that generate the agency conflict and adopt the best practices of governance in order to achieve a healthy business environment, more reliable and more sustainable for them.

B. Arguments for addressing the subject

This study gains importance when we recognize the current relevance of family businesses in the global scenario, and the fact that this category of companies will remain a significant economic influence in the future. Indeed, globally, family businesses are the predominant form of functional company. According to the HSM Management journal (2003), organizations controlled and run by families represent 80% of the corporate universe and their activities worth nearly half of global GDP. In the North American economy, family businesses generate 50% of the GDP, they are responsible for 60% of employment in the country and for 78% of newly created jobs, and moreover, they represent about 35% of the companies listed by Fortune 500.

Despite a difficult market and the challenges they have encountered, "screened" by the financial and economic crisis, family businesses in Romania are an engine of growth. Therefore, in early 2013, four businessmen in Romania founded the Family Business Network, the local branch of the FBN association. Founders of now successful businesses in various fields, they were enthusiastic about the idea of a national network to create a better business environment for our children's generation and promote a culture of business, beyond any notion of nepotism, wrongly associated with the idea of family business. Eurostat sources show that more than 1/3 of family businesses are concentrated in economic (industrial) and tourism developed areas in Romania, while in 7 of the most developed areas of the country, mainly based on agricultural activities are listed less than 10% of the family activities nationally registered.

Based on these data, the fundamental role of family businesses in the economic development and growth of societies is undeniable.

Another point of fundamental importance is the understanding of the life cycle of family businesses. Depressing statistics of family businesses succession show that 30% of firms survive to the second generation, 13% survive to the third generation, and only 3% survive beyond. The 30/13/3 statistics has already an antiquated consistency and in fact seems to suggest that there is something fundamentally "wrong" in the tactics of family businesses.

Therefore, facing this scenario, the organizations controlled by the family searched to equip themselves for survival and development in the midst of the challenges of generational transition, ensuring ownership and management succession and the creation of value for shareholders. And therein lays the corporate governance, using a number of concepts governing the form of interaction between management, shareholders and the market, providing greater transparency about the company and ensuring longevity.

This research proposed a model which allows family businesses operating in the wine sector to identify the factors that generate the agency conflict and by adopting the best practices of governance, to intervene to prevent the disappearance of small wineries, in order to obtain a healthier and reliable business environment, and a more sustainable development for this exploitable resource of the economy, nowadays a mix of tradition and innovation. For companies which aim longevity, like family businesses in the wine industry, of interest to us, the changes in the environment claim strategic responses from the family to allow regeneration, renewal and sustainability of the business on the dynasty line.

Choosing wine industry as the context for our research is not random. To run through the road of vine in the present territory of Romania, important wine-producing country in Europe, is in fact, to reconstruct the past and the cultural traditions of the country since ancient times, most of them directly related to this drink, rightly considered a *divine liquor*. The beginnings of viticulture in this area of the world dates back at least 4,000 years. Griesbach says that "the vine's homeland must be sought in the rich in lianas woodlands of

Pontus and Thrace, up beyond the Danube". The legend says that Dionysus, god of wine, was born in Thrace, on what is today Romania. Dacia, how this land was known by Romans, had a reinforced culture of wine. Travelling thousand years and placing us in times which we witnessed, Romanian viticulture had several distinct periods, with specific influences on the wine industry. Some bitter if we think that we could have a wine industry as Country Brand that would have raised Romania to the value of states such as France, Italy, Spain and California.

The influence of other wine countries is felt. The future is now for small farmers who do not have large areas of vines, but who are determined to have a good quality production and grow over time, not overnight. Undeniable proof is the fact that wines prepared by small producers were awarded at the recent oenological celebrations. Small producers proved that they make gold wines. The explanation for the high quality of the wine from small producers is that they, for some years, not only have access to the production lines, but they took very seriously the occupation. This phenomenon must be understood also in the light of the conclusions of extensively circulated studies in recent years in the Romanian economy that the future belongs to niche businesses.

Wine is the lifeblood of grapes. So, we look into the past and learn from others. Our belief, as researchers, is that the story of a wine begins in the vineyards of the traditional producer who leaves his heirs the business values and the recipe of product personality.

C. Research methods used

Given the requirements of the thesis topic, we used a number of tools and research techniques, as follows:

- 1) **Scientific hypotheses** concerning the management of family businesses, its definitions and functions, as well as the **strategic analysis** of the internal and external general and competitive environment - as key elements in the management of family businesses in the wine industry.
- 2) **Scientific case study** to show how the theoretical and methodological aspects of the management specific to women entrepreneurs interact with specific, pragmatic issues of concrete cases identified in distinct located wine regions around the globe, and the analysis of the conflict it creates.
- 3) **Dashboard** as a strategic tool for performance management to transfer knowledge and integrate succession management in the strategy, planning and processes of family wine business.
- 4) **Face to face, telephone and online asynchronous interviews** in four qualitative and quantitative studies along the entire doctoral research.
- 5) **Statistical indices** developed to demonstrate the link between performance and regional competitiveness of the wine industry (regional competitiveness index and the index of competitiveness in the wine industry).
- 6) **Simulation** on three levels of the economic impact of wine tourism on the Oltenia Development Region.
- 7) **Spatial modeling** to analyze the availability and spatial distribution of areas with high potential for vini-viticultural tourism to correlate through the means of GIS (ArcGIS 9.3) with other forms of tourism for individualizing ways in which, initially, the wine component to be attached to the existing tourism offer; **Management processes modeling** in order to produce a coherent and comprehensive governance model to avoid agency conflict.

- 8) **Inductive inferences** as research methods that proceed through the transposition from particular to general in the analyzed themes by tracking the transition from effect to cause in testing hypothetical stated relationships.
- 9) **Deductive inferences** as fundamental form of judgment in which thinking moved only in terms of concepts, conclusions or findings exclusively arising from the premises, in order to develop an analysis model documented as content from the support specialty theory and tested in the reality of samples.
- 10) **Statistical analysis** using descriptive statistics and support software tools (SPSS, Microsoft Office Excel) to collect, record, process and analyze data.

The theoretical basis of the doctoral thesis has been exploited through the multiple research techniques (activity analysis, comparative analysis, documentary analysis) in several stages of the research. In the first chapter, it was divided into three parts united by a logical flow approach. The first part provides an overview of the importance of family businesses, and includes a discussion of the literature on family businesses, exploring the key attributes and their particularities. Part two deals with the succession in family businesses as an actual issue in the theory of entrepreneurship in a structured documentation and analysis. The third part includes a review of literature related to corporate governance issues and the major implications of the agency theory in the family business. The second chapter illustrates the gaps in the literature on agency conflict in family businesses, and how the goals of this research will help to diminish these gaps. In the fourth chapter, dealing with literature was meant to argue the model constructs in terms of their relevance to formulate hypotheses based on true mutual relations between constructs.

The research methodology of this study was also based on:

- a study having theoretical results, which involved codification as general, technical and idiosyncratic knowledge or other experiential knowledge in three dashboards that systematize succession situations of business management, vines practices (in vineyard) and oenological practices (in cellar) which family owner-manager faces usually on the relevance of all three types of knowledge, assessing the adequacy and effectiveness of different learning pathways to get industry specific knowledge types identified for the tasks listed.
- a quantitative study among the top 50 Romanian wine producers by performance, which demonstrated the link between the performance of the wine industry and regional competitiveness by correlating the index of regional competitiveness with the wine industry competitiveness index, both derived indicators in the research.
- a study on the impact of the wine industry conjugated to the impact of tourism on regional development, a three-level simulation of the economic impact of wine tourism on the Oltenia Development Region, revealing the importance of family wine businesses at macroeconomic level.
- a mix of qualitative-quantitative-qualitative research on the key issues of agency conflict and governance in family businesses extensively discussed in the first three chapters, on the skeleton of a theoretical model proposed and tested. This created a mirror of the entire research underway (I - interviews conducted face to face with the French owners of family wine domains, II - questionnaire survey, III - telephone interviews with Romanian owners of family wine domains) that have made sense in our research proposal for the local wine industry of best practices of European empirical experience.

D. Contents of the thesis

In the **Introduction** there are presented the research context, followed by the motivation and the rationale for choosing the topic.

The state of knowledge is highlighted within each of the five chapters and fifteen subchapters of the thesis as follows:

INTRODUCTION

I. Theoretical retrospectives on the generational transfer of family businesses

I.1. The family business

I.2. Succession in family businesses - topical issue in the theory of entrepreneurship

I.3. Corporate Governance and the Agency Theory

Preliminary conclusions

II. A behavioral perspective on the management of family businesses

II.1. Conflict in family businesses

II.2. Sources of conflict generated by the succession process

II.3. The relevance of types of knowledge and learning paths in family business succession

II.4. Underrepresentation of women in management: Journey of a persistent conflict

Preliminary conclusions

III. Family businesses in the wine industry at the confluence of rural, regional and economic

III.1. Traditional rural industries - still a rediscovered road to economic development

III.2. From wine industry performance to regional competitiveness. The case of the wine industry in Romania

III.3. Study on the impact of wine industry and tourism on regional development

Preliminary conclusions

IV. A relationship model between agency conflict and governance in family businesses

IV.1. Qualitative research methodology

IV.2. Theoretical model and hypotheses

Preliminary conclusions

V. Empirical research on the relationship between the application of the relationship model between the agency conflict and governance in family businesses in the wine industry

V.1. Methodological and organizational aspects of quantitative research

V.2. Data analysis. Results and discussion

V.3. Qualitative research on the affinity of Romanian family wine businesses with the model developed

Preliminary conclusions

CONCLUSIONS AND FUTURE DEVELOPMENTS

BIBLIOGRAPHY, reflecting all treaties and papers studied to develop the thesis, articles, international conventions, laws and regulations, web pages consulted, personal scientific production, all these being relevant references for the study addressed.

APPENDIX

E. Keywords

management, strategic management, agency conflict, corporate governance, family business, viticulture and wine industry, intergenerational transfer, entrepreneurship- family business-succession nexus, rural traditional industry, regional competitiveness index, index of competitiveness in the wine industry, wine tourism, relationship model, dashboards, modeling of accessibility, experiential knowledge.

F. Summary of Thesis

CHAPTER I named *Theoretical retrospectives on the generational transfer of family businesses* was structured in three parts joined by a logical flow approach. The first part provided an overview of the importance of family businesses, and included a discussion of the literature on family businesses, exploring the key attributes and their particularities. The second part dealt with the succession in family businesses as a topical issue in the theory of entrepreneurship in a structured style of documentation and analysis. The third part included a review of literature related to corporate governance issues and the major implications of the agency theory in the family business.

Comparing the business of the family and the mutual institution, the family of the business, like two sides of a one-sided phenomenon, like a Möbius strip, had the sense to enrich the conceptualization and then broadening it to include different types of companies that identify themselves as family businesses. We presented a model with three interfaces - entrepreneurship-family business-succession, to explain the emergence, the existence and the decline of the family business, culminating in discussing the strategic implications of the intersection of interfaces in family businesses in the wine industry.

CHAPTER II named *A behavioral perspective on the management of family businesses* illustrated the gaps in the literature on agency conflict in family businesses, and how the objectives of this research helped to diminish these gaps.

The core of the discussion was the knowledge management challenges in intra-family succession on the background of the knowledge-based vision. Since knowledge transfer is crucial for successful business continuity, we identified the factors that promote interpersonal knowledge transfer. As the quality of the relationship between the successor and predecessor is considered a key determinant of knowledge transfer, we analyzed the role of relational competence in knowledge transfer process. All analysis took place in the context of the wine industry, being developed as a strategic tool for measuring three types of dashboards for testing the assumptions we derived, on the skeleton of a classic balanced scorecard. The study involved a simplification by successively eliminating parameters, which strongly affected the accuracy of the results and led to the confirmation of the close relationship between relational competence, knowledge transfer in the context of intra-family succession and learning pathways.

The last part was a continuation of the default ongoing of the chapter and referred to the underrepresentation of women in management from bias and conflict to strategic advantage, through the support of case studies, impressing a bold and stimulating character to the discussion, in the sense that the Romanian wine industry can anytime become a fertile ground for women.

CHAPTER III named *Family businesses in the wine industry at the confluence of rural, regional and economic* presented the wine industry as one of Romania's traditional rural industries, ancestral - i.e. simultaneously having the character of being ancient and transmitted from ancestors - that still may be a way rediscovered for economic development. The first study demonstrated the link between the performance of the wine industry and regional competitiveness through the development of a regional competitiveness index and an index of competitiveness in the wine industry and their correlation in the context of a quantitative telephone survey among top 50 wine producers ranked by Romanian performance indicators. A second study concerned the impact of the wine industry conjugated with the

impact of tourism on regional development, being a three-level simulation of the economic impact of wine tourism on the Oltenia Development Region.

CHAPTER IV intituled *A relationship model between agency conflict and governance in family businesses* was divided into two distinct parts, the first part presenting the qualitative methodology used in the context of three interviews conducted with experts from Beajoulais and Dijon regions in France, which stressed the most important issues through interviews quotes.

The second part of the chapter presented a theoretical model of the relationship between the agency conflict and governance, built on the interviews findings, summarized in a matrix of key variables. Based on the findings, the constructs of the model have been proposed and argued in terms of their relevance in a confrontation with the literature and several hypotheses have been formulated on the basis of mutual relations between constructs.

CHAPTER V which we called *Empirical research on the relationship between the application of the relationship model between the agency conflict and governance in family businesses in the wine industry* consisted of three parts in a composition at levels of analysis from overwrought to naturalness. In the first part the methodological and organizational aspects of the quantitative analysis were presented, including the sampling, having a different geographic constitution, namely the family wine producers in the Languedoc-Roussillon in France and La Rioja Spain, the design and validation of the questionnaire, the request for participation in the survey and the procedures of analysis of the data. In the second part, of a greater consistency, the chapter summarized the analysis of hypotheses, showing which were supported and which were not supported, and discussed the findings as a whole.

The third part is a qualitative approach of smaller scale meant to decide the stage of affinity with the model developed proposed for the Romanian family wine businesses.

CONCLUSIONS AND FUTURE DEVELOPMENTS provided the study findings, its limitations and suggestions for future research. Moreover, we discussed how this comprehensive study made original theoretical and practical contributions to knowledge.

G. Contributions to the state of knowledge

The relevance for the scientific research is given by the complexity and topicality of the issues addressed, as well as the originality of the topic of study both internationally and becoming more prominent in our country. The five chapters of the thesis are the result of the author's research, her **own contribution** being deployed on two levels:

➔ **Theoretical and empirical contributions:**

- enriching the small but emerging body of research regarding family businesses.
- providing a new framework for agency conflict theory by linking ownership / family / management elements to the reduction of tension caused by the diversity of interests.
- demonstrating how the costs of implementing family governance mechanisms are offset by a reduction of agency costs, which facilitates their voluntary adoption by family businesses.
- using theory representing the substance of specialty literature in combination with ideas that reflect the expertise of participants in semi-structured interviews to build the final product of this research, entitled **The relationship model between the agency conflict**

and governance in family businesses, a genuine contribution to the theory and practice of governance in family businesses.

- proposing safe paths for family businesses in the wine industry mainly escaping threats and losses resulting from differences between the principals and the agents: promoting (strategic or social) alignment, building trust and embracing impartiality.

→ **Practical implications:**

- presenting the sources or risks that may cause paralyzing conflicts for decision-making processes in family businesses, by proposing the development of a conflict management system to detect and prevent emerging conflicts and entering a unmanageable escalation process.
- cross-tabulation analysis performed through the methodology developed by the load obtained on the construct, but also by the analysis of the arithmetic means of the responses in the descriptive statistics showed that in family businesses conflict generally occurs between family managers.
- studying the trends of European family winemaking businesses and the study compared to the current situation in Romania.
- identifying and highlighting the main issues of management in family firms (actors involved in conflicts in the family business, the relationship between business characteristics (economic and financial performance, size, type of capital structure, the ruling generation, the manager's origin) and the level of conflict.
- identifying tools and practices of management control and the extent to which they are found in the reality of family businesses in the wine industry.
- highlighting the family manager's features as a human resource and strategic asset in family businesses and developing motivation possibilities specific to the sector.

The idea that the sample used to have as a component family wine businesses in Languedoc-Roussillon and La Rioja came from the ambition to break the limits of the generalizability of the results, willfully the concept of the governance model representing a proposal, a solution to be implemented inside Romania's borders, but not only. French and Spanish cultures are strongly relational, reality that clearly involves different behaviors and different influences on the construction, compared to what happens in many transaction-oriented cultures, that exist for example in Anglo-Saxon countries.

Most often, organizational conflicts can not be captured in studies of this nature. Responses received confirm that almost implicitly national cultures are likely to exert a significant influence on how different governance mechanisms work in a family business, but we encourage applications of this kind in other countries and cultures, in order to verify and contrast the differences found in this study.