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From Val d’Orbieu to InVivo Wine: the emergence of new ways of strategic partnership and governance in French wine industry

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From Val d’Orbieu to InVivo Wine: the emergence of new ways of strategic partnership and governance in French wine industry

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Abstract

Whereas wine sector is permanently restructuring to be more competitive, this research proposes to analyse the new forms of vertical and horizontal co-operation that are emerging in the French wine industry thanks to the Vinadéis case study. Focusing on strategy and governance, our theoretical framework points out that partnership is rarely precisely defined. Between strategic alliances and mergers, strategic partnerships are new forms of inter-firms co-operation that can be vertical or horizontal. Regarding co-ops governance, it appears to be complex and multi dimensionnal with a great partnership facet. Involving stakeholders in the decision making process is a specificity of certain types of co-ops. This research highlights three key elements regarding the strategic partnerships that are emerging in the French wine industry: the usefulness of analysing strategy and governance from a resource and a path dependence sides, the key role of “opened governance” in managing the inter-firms relationships and a realistic understanding of the intricacies and dynamics of partnering in practice.

Keywords: Wine Co-ops, Patnership, Governance.

Résumé

Alors que le secteur viti-vinicole est en permanente restructuration pour gagner en compétitivité, ces travaux analysent, grâce à l’étude de cas portant sur Vinadéis, les nouvelles formes de coopération verticale et horizontale qui se font jour dans la filière.

Axé sur la stratégie et la gouvernance, notre cadre théorique souligne l'absence de définition précise du partenariat. A la croisée des chemins entre alliance stratégique et fusions, les partenariats stratégiques constituent une nouvelle forme de coopération inter-entreprises qui peut aussi bien être verticale qu'horizontale. La gouvernance coopérative apparaît complexe et multidimensionnelle, avec une composante partenariale importante. L'implication des parties prenantes dans le processus de prise de décision est une particularité de certains types de coopérative.

Cette recherche permet de mettre en évidence trois éléments-clés relatifs aux partenariats stratégiques qui montent en puissance dans le secteur vin français : la pertinence d’analyser la stratégie et la gouvernance sous l’angle des ressources et de la dépendance de sentier, le rôle central d’une « gouvernance ouverte » en matière de gestion des relations inter-entreprises et enfin la compréhension concrète des subtilités et des dynamiques des relations partenariales.

Mots-clés : Coopératives viti-vinicoles, partenariat, gouvernance

JEL : Q13, G34, Q3, L1

11. Annual conference of the Association of American Wine Economists (2017-06-28-2017-07-02, Padoue (ITA)).



1. Introduction

Restructurings and combinations are constant phenomenon in agri-food industry facing sometimes devastating consequences of hyper competition all over the world. Wine industry is concerned by this problem regardless of firms' size.

In this context, it is particularly interesting to analyse the case of Vinadéis, created in 1960s and named Val d'Orbieu. This producers group was launched, during the restructuration of Languedoc-Roussillon vineyards, to organise production, increase wines quality and improve marketing aspects. It faced important challenges and had to adapt, shifting from a regional co-op to a great wine co-op group, with significant strategic and governance evolutions.

For this case study, we will first deal with theoretical aspects of strategy and cooperative governance, then we will describe the methodology, and finally we will analyse the main features of these strategic and governance changes, linked these last years to partnership with InVivo (first agricultural co-op group in France).

2. Theoretical framework of firms partnerships and co-ops governance

2.1 The specificities of partnership, between alliances and mergers

In a hypercompetitive economic world, businesses are searching for growth and internationalisation strategies regardless their sector in order to be more performant (Ardoin et al., 2005). In this objective they often build up particular long term oriented relationships with other firms which are generally called *strategic alliances*. These ones can be defined as "partnership between several competing or potentially competing companies" (Garrette and Dussauge, 1995). It is a kind of mixed strategy combining competition and cooperation whose each side can be more or less developed linked to private strategic intentions (Park and Ungson, 2001).

These relationships tend to overcome oppositions, disagreements and conflictual strategic positions to find new ways of value creation among firms which are competitors. They are a good mean of economies of scales and increasing activities, a third way between external and internal growth (Doz and Hamel, 1998). In wine sector, strategic alliances are multiform with a wide range of legal possibilities leading to different ways of governance. Figueiredo and Franco (2017) show how cooperative unions can be considered as strategic alliances, namely by interviewing chairman and managers. They stress the complex and very efficient network composed by wine co-ops, members of the second tier structure.

The aim to pool economic and financial means in order to increase market efficiency can also lead to *mergers*. It can be seen as a rational way to acquire new capacities and to be more competitive (Roth and Menguy, 2015). This type of strategy is very frequent among wine co-ops, due to their average small size, and require specific process to be really efficient (Saïssset and Cheriet, 2012). Moreover Coelho and Rastoin (2006) underline their importance in international strategies of wine industry, showing their long term increasing all over the world.

But beyond these strategic dynamics, *partnerships* are emerging from new theories taking into account firms' behaviours at the market level (Roy, 2010). They lead to co-operation, collective strategy and especially to mutual dependence that Astley and Fombrun (1983) call "direct symbiosis". Facing difficulties, businesses search to reduce uncertainty and economic

risk, whereas bearing in mind need for increasing market shares. In this context, developing partnerships between non competitors seem to be a good mean of growth. In fact, strategic partnership, mainly considered in inter-continentals relationships, has been rarely defined. We can adapt Brulhart (2002) approach for the definition of this concept: partnership is seen as interfirm relation implying hybridisation of business organization and leading to joint decision. This form of alliance has been classified in two mains groups: the *vertical partnership* between suppliers and customers which extends to the whole value chain and the *symbiotic partnership*, aiming to jointly exploit customers or/and a resource (Johnson et al., 2011).

Finally we want to stress that “history matters” and so previous choices can affect strategic orientations in different ways. Path dependence as a social process (Pierson, 2000) should be taken into account as far as strategy is concerned.

2.2 The complexity of co-ops governance

Co-ops are based on the original user-owner principle: no other form of organization is made of “shareholders” (the farmers in an agricultural cooperative) who are in the same time its suppliers or customers with a long term commitment (Birchall, 2005).

The agricultural cooperative reality is thus not unique and can be declined to infinity. Cornforth (2004) shares this point of view and shows that every association and cooperative governance theoretical framework is one-dimensional and cannot sum up a more nuanced reality of this collective form of organization.

In fact, we can consider that at least three mains governance theoretical streams explain the agricultural cooperatives way of governance in an increasing collaborative approach that reflects internal stakeholders’ aspirations (Saïsset, 2016): disciplinary dimension with the agency theory (Jensen and Meckling, 1976), partnership dimension based on stakeholders’ theory (Freeman, 1984) and cognitive dimension (Huse et al., 2005). Often focused on long term growth and rooted on a specific territory, cooperatives and especially wine ones are prone to be influenced by their history. Thus their way of governance may be the result of path dependence, as stressed by Bebchuck and Roe (1999).

More precisely, stakeholders’ theory copes particularly well with collective/collaborative action and so cooperatives governance reality. Internal stakeholders appear as essential and having active relationships with firm level: shareholders, employees, customers and suppliers. More distant and external stakeholders do exist and have an indirect influence on the firm (medias, consumers, concurrence, government), according to Freeman et al. (2007). In this context, co-ops are managed from all its stakeholders’ vision, leading to corporate social responsibilities, far beyond single profit objective.

This conceptual framework is particularly developed by Charreaux and Desbrières (1998) who point out that value creation model must be enlarged to partnership value creation. This approach gives a more systemic and global dimension to value creation towards all stakeholders and particularly employees, customers and suppliers. Furthermore, Filippi (2013) underlines the importance of cooperative members shareholders who support the collective project and make it grow.

3 Methodology

Our survey is designed as a strict research work. We had the main research objective to carry out an exploratory analysis to identify the process dynamics of new partnerships in wine industry, leading to key lessons in terms of strategy and governance alongside the value chain. So our analysis is based on case-study and qualitative approach. Our methodology follows Yin's research (2013). Studying Val d'Orbieu (become Vinadéis in 2015), InVivo and InVivo Wine, we made semi-structured interviews with executive management of those firms. We also collected internal data as well as external information (scientific and non scientific papers).

Moreover, this survey is partly grounded on research-action (Hult and Lennung, 1980) as we advised Val d'Orbieu group for sustainable development (3D audit) between 2012 and 2014. We contributed to organisational changes and observed evolutions in the same time, collecting also precious informations for our research work.

4 Results and analysis

4.1. Vinadéis and InVivo: two co-ops groups with parallel destinies

Vinadéis and InVivo are two very different groupings of cooperatives, emblematic of their sector, with their proper history, their specific relations with farmers and also with markets, their particular strategy, their specific internal organisation and type of governance. But they share the same cooperatives values and appear to be linked to the same branch (emerged at the end of the XIXth Century) of the French family of agricultural co-ops.

Vinadéis, created 50 years before as Val d'Orbieu, is rooted on South of France vineyards and has evolved in step with its major evolutions, sometimes forerunner sometimes follower. This co-op is part of the School of "Boulevard Saint Germain" Co-ops, left rooted and very close to the bank *Crédit Agricole*. InVivo, federation of co-ops in the grain sector, is a bit more ancient (70 years) and is also connected to the same cooperative tendency, but is based on a more unitary approach¹, certainly for a great part at the origin of its tremendous growth. The consensus oriented vision of its founders has contributed to its national impact.

Box 1 – Presentation of Vinadéis and InVivo

Vinadéis

- ☞ 1967: creation of SICA Val d'Orbieu
 - ☞ 1980s and 1990s: constitution of Val d'Orbieu group (acquisitions/subsidiaries)
 - ☞ 2015: Val d'Orbieu become Vinadéis
 - ☞ 2017: 11 wine co-ops, 45 wine estates for 900 000 hl of wine produced -
Turnover: €308 million – 580 employees – 150 million bottles sold
- ⇒ ***1st French wine co-op group – 3rd European wine co-op group***

InVivo

- ☞ 1945: creation of UNCAA (grain sector) and UNCAC (farmers supplying)

¹ Its creation was supported by the General Agricultural Confederation aiming unification of agricultural and cooperative movements at the end of the Second World War in France.

- ☞ 1960s to 1980s: expansion
 - ☞ 1990s: restructuring and mergers
 - ☞ 2001: creation of InVivo
 - ☞ 2017: 220 co-ops -Turnover: €6.4 billion – 9 200 employees
- ⇒ ***1st French agricultural co-op group – 6th European agricultural co-op group***

Sources: author, Vinadéis and InVivo

The story of each group is rather different with some similarities and especially great evolutions for some years. We can stress that these two entities are based on a second level structure showing the crucial importance of alliances regardless the sector to be long term performant. Those organisations are now national and even international agribusiness groups that control upstream (vine-growers or grain producers) and invest more and more downstream on intangible and market. Their strategy has been recently redefined and is now offensive, long term oriented and includes corporate social responsibilities, with governance impacts.

There are also some significant divergences that give specific characteristics for each group. We can underline three main specificities:

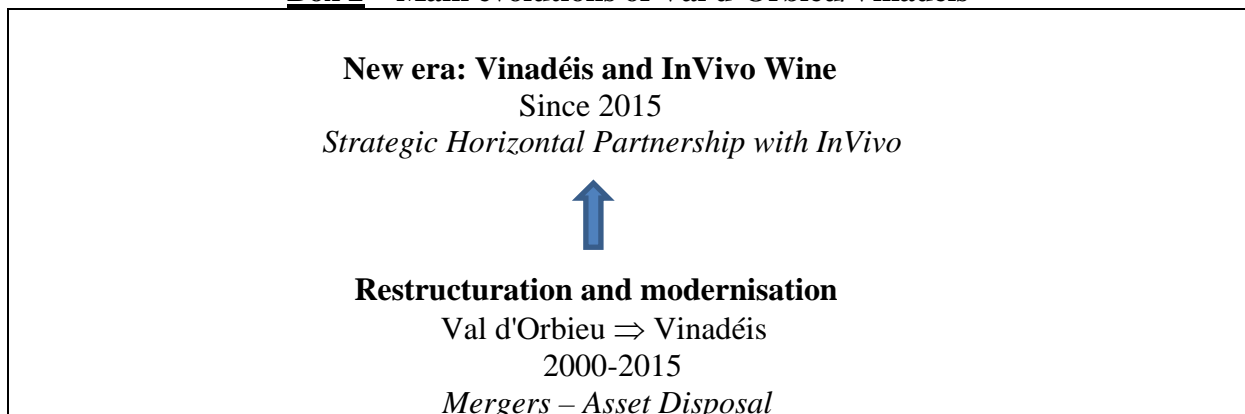
- size are very different and are reflecting previous strategies;
- supplying of InVivo is national whereas Vinadéis one is local and territorial (wine sector specificities);
- Vinadéis is focused on wine sector and more particularly on mid-range products of South of France whereas InVivo is more and more diversified with a real patchwork of activities.

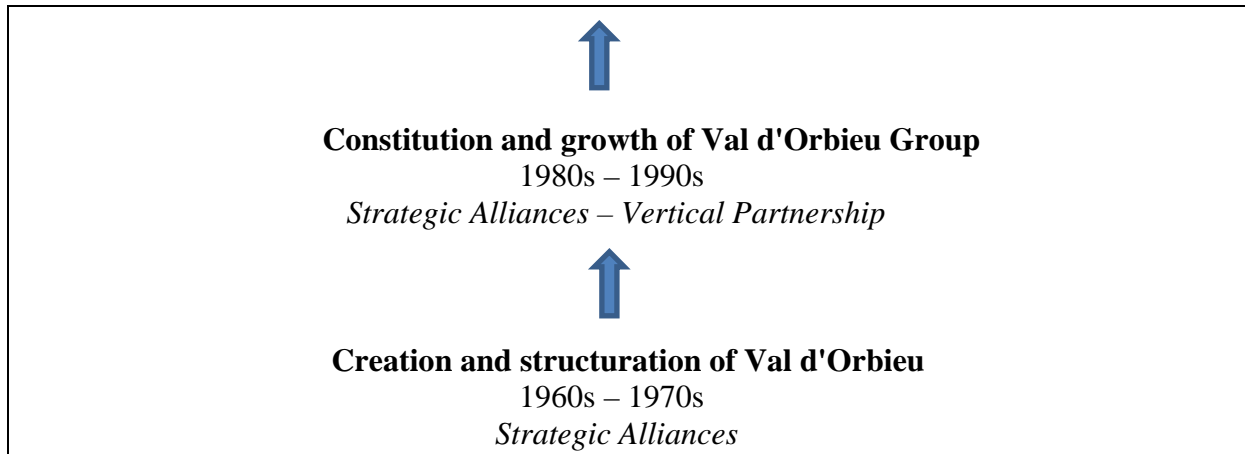
Group history can be analysed as an important determinant of the actual situation, pointing out the path dependence of these organisations, particularly for Vinadéis. But we are also going to discover that there has been rupture times, explaining significant evolutions.

4.2 Val d’Orbieu and Vinadéis: a long term strategic evolution

Focusing on the history of Val d’Orbieu (VDO) and the recent evolutions of Vinadéis, we must underline the pioneering nature of this « Tom Thumb », building alliances in 1960s, who became progressively a giant of wine sector as Gulliver.

Box 2 – Main evolutions of Val d’Orbieu/Vinadéis





Sources: author and Vinadéis

VDO is from the beginning a form of strategic alliance, bringing together businesses with divergent objectives and being market competitors: wine producers, wine co-ops and retailers (Nicolas compagnie). Involving even oenologist and wine broker, the SICA Val d'Orbieu (specifically french hybrid organisation between capitalistic firm and co-op) had an interprofessional nature that conferred to it an « opened governance », unusual for wine sector. In 1974, VDO was recognised as a producers group and was able to really take off by increasing its production. More than 50 wine co-ops federations were created for 20 years after VDO, but very few of them (maximum 10) still exist.

Then, for two decades, VDO evolved financially to a wine cooperative group, reinforcing strategic alliances between Languedoc-Roussillon co-ops and designing new relationships with downstream wine firms. The group acquired a very important local wine merchant (Trilles) to develop its supply and especially to increase bottled wine sales. A new SICA was created for the same purpose. Under the initiative of its emblematic founder and Chairman (also at the head of the regional bank *Crédit Agricole du Midi*), VDO partially acquired Listel (branded wine of Camargue) and Cordier (Bordeaux). In the same time, VDO launched a specific wine quality standard (BUVICA) and one of its subsidiaries received ISO 9000 certifications.

In this context, governance structures go on implying external stakeholders indirectly in their decision making process all along the value chain, but perhaps also to the detriment of members and vine-growers... This « race for size » tended indeed to become a dangerous headlong rush. VDO was obliged to reduce indebtedness and restructure its activities from 2000s by selling some non strategic or non profitable assets (namely Listel). It was time for concentrations: some mergers between co-ops members of VDO and above all an exceptional « restructuring » with the big regional competitor UCCOAR. In 2010, the head management changed and decided to guide the group strategy to sustainable development, innovation, exportations and a new governance. The 3D audit was conducted and paved the way to real partnership governance ensuring more involvement of members and leading to annual sustainable development report. VDO did not commit itself to corporate social responsibility, but was very close to. VDO became Vinadéis at mid 2015. Internal and external communication were promoted.

More recently, Vinadéis was searching for a new market oriented partnership in order to mutualize its marketing costs and to obtain more value creation for stakeholders, especially for vine-growers. In the same time, InVivo set up its new ambitious strategy « 2025 by

InVivo » pointing out a necessary diversification based on a « new occupations strategy » to take a position in agri-food sector. The wine sector was a priority and in 2015 the two groups decided to associate, creating a strategic partnership (no marketing link between the two entities) through InVivo Wine company. It aimed to export french wine thanks to financial and marketing means of InVivo. The new firm expected to generate revenues at least €500 million in 2019. Its ambition was to become the third french wine operator after Castel and Grands Chais. Beyond Vinadéis, more than 20 co-ops joined the organisation to export and conquer new customers.

4 Conclusion

Our survey shows that wine industry faced great challenges over the last decades and had to cope with wines adaptation, markets evolutions and international competition. Vinadéis is an emblematic example of these changes and recurrent adaptations. Its founders were visionary, building very early strategic alliances and inter-branch governance. This forward thinking approach led to others downstream alliances, mergers and finally to an original strategic partnership with the great French co-op group InVivo, thanks to InVivo Wine.

This case study underlines the role of path dependence in strategy and governance issues, but also the importance of the permanent questioning of managers, leading to adaptations and new opportunities of value creation. These managerial implications would be even more relevant if we could compare this case with others in different wine regions.

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