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Making wine and making successful wineries: resource development in new ventures

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Abstract

Purpose – Most research on new organizations drawing on resource-based theory examines firms in discrete development stages with resources that already exist. The purpose of this paper is to articulate a broader view of changing resource requirements over the life of new organizations. The authors propose four phases of resources development, arguing that new resources and capabilities must develop as new strategic challenges emerge. The paper identifies salient resources in these phases and finds that internal resource development is context dependent, interacting with the external stage of industry development.

Design/methodology/approach – After developing the theoretical model, the authors use an exploratory qualitative study involving extensive case studies of new ventures in the wine industry. Key personnel at a sample of firms were interviewed, supplemented with secondary data from published reports.

Findings – The paper finds that a linear stage development model for new organizational ventures is inappropriate. The various combinations of early/later new ventures in a formative/developed industry suggest that some may proceed rapidly in a linear fashion through phases of development, while others may find progress slow, difficult, stalled or occasionally regressive. A combination of resources developed simultaneously in a non-linear pattern appears to be critical to the success of new ventures. In other words, combinations must evolve as the strategic challenges evolve, thus bringing an important contextual view to the examination of dynamic resource development efforts for new organizations. Attempts to focus in a piecemeal fashion on individual aspects of resource development, without accounting for resource interactions at a systemic level or the nature of the strategic demands, is likely to leave researchers and practitioners with incomplete insights.

Originality/value – Existing studies have failed to grasp the dynamic and interactive process of resource development as organizations evolve in a new industry setting. The model presented in this paper provides a heuristic device for conceptualizing these changes.

Keywords Business strategy, Resource efficiency, New ventures, Wine industry

Paper type Research paper

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Resource-based theory continues to provide a valuable perspective to understanding the process and pace of how organizations evolve as they solve significant strategic challenges they confront. This body of work to date is valuable because it emphasizes the creation of *ex ante* and *ex post* limits to competition (Peteraf, 1993); the ways in which combining resources are itself important resources for entrepreneurial firms (Alvarez and Busenitz, 2001); and the dynamic development of resource positions over time, as firms confront a continuously shifting landscape of problems (Kazanjian, 1988) and must adapt their resource positions to succeed (Barney, 1991).

Although there is a significant body of research applying the resource perspective to new ventures, this work to date has not yet substantively addressed one of the most critical resource development questions that confront new ventures. This question is: "which resources to develop, at which stage of the new venture's development?" Although many categories of resources have been identified, and much attention has recently been devoted to the dynamic capabilities process of augmenting and creating resources, it is not at all clear to entrepreneurs what path they should follow in developing resources for their new ventures. Which resources are absolutely critical at inception? Which new resources should be developed next, and which existing resources should be extended or augmented? To what extent do the contextual challenges of organizational and industry development affect resource investment decisions?

This question of "which resources, at which stage" is vitally important for three reasons. First, in both research and practice, we know a great deal about starting up companies. And yet survival rates among startup companies remain at very low levels, especially long-term survival (Castrogiovanni, 1996; Gimeno *et al.*, 1997; Reynolds and Miller, 1992), because of failures to address unfolding strategic challenges. Identifying which resources are important for the strategic challenges they confront offers the opportunity to enhance growth and survival. Second, it is commonly accepted that resource development – and the dynamic capabilities development which follows – is path dependent (Lichtenstein *et al.*, 2006; Zahra *et al.*, 2006). The current resource base not only provides a foundation for future resources development, but also shapes and constrains the sorts of development that can occur. Thus, the development of initial resources is a critical question for new ventures. Third, liability of newness (Stinchcombe, 1965) and low or non-existent levels of slack suggest that investments in the development of unneeded resources may compromise an organization's future (McKelvie and Davidsson, 2009). For these reasons, Barney *et al.* (2011, p. 1307) argue for the "need to examine paths and sequences of their evolution".

This paper investigates these resource development research questions, incorporating two organizing perspectives. Drawing on a dynamic states model (Levie and Lichtenstein, 2010), we examine phases of resource development as a new venture makes the transition from inception to a self-sustaining level. We build on extant theory about resources (Barney, 1991; Dierickx and Cool, 1989; Penrose, 1959; Peteraf, 1993) and resource development (Brush *et al.*, 2001; Lichtenstein and Brush, 2001; Lichtenstein *et al.*, 2006) and propose that entrepreneurs must develop their firm's resource positions in a path-wise fashion (Ahuja and Katila, 2004) in response to progressively unfolding strategic organizing challenges they confront (Zahra *et al.*, 2006).

But new ventures also develop from unique contexts involving their industrial, historical and local circumstances. While changing competitive contexts require the ongoing creation of new resource positions, different stages of an industry's

development also provide an evolving context-dependent framework within which firm interaction shapes and is shaped by a more fungible resource base than most studies conceptualize (Godfrey and Gregersen, 1999; Pettus, 2001). In other words, new firms evolve within a constantly changing landscape, which simultaneously stimulates growth while attracting competitive attention, facilitates and rewards innovation for resource-rich entities and penalizes those who are operationally unable to minimize their internal resource weaknesses. Thus, the progress and success of any new venture involves context-based path-dependent and path-creating resource development. This paper, therefore, proposes that evolving strategic challenges and evolving industry development are a lens through which to examine and understand resource development in new organizations.

We develop these propositions through a qualitative study of wineries in the emerging wine region of North Carolina over a six-year period. Interviews with 23 North Carolina wineries – covering the range from startup to established player and from more successful to less successful players – provide significant insight on these pivotal resource development issues. Within this sample are wineries that started up using bootstrapping methods as well as wineries that came into existence with significant financial backing. Despite such differences, we discover similarities in the phases and paths of resource development among the more successful firms, the utility of bundling certain types of resources at certain phases of development and increasing operational liability for resource-scarce firms who patently lack the bundling capability.

Resource-based theory in new ventures

Empirical studies using resource-based theory to understand new venture development generally fall into one of two categories. Such studies for the most part either focus on the dynamic capabilities process in new ventures to augment or create new resource positions or examine the impact of individual resource positions. The former category of new venture research investigates dynamic capabilities (Ambrosini *et al.*, 2009; McKelvie and Davidsson, 2009; Zahra *et al.*, 2006) and tends to focus on the process of resource augmentation and creation. But this literature presents conceptual difficulties for understanding the resource development process in new ventures. The core of the conceptual problem is one pointed out by Penrose (1959). She argues that capabilities ("productive services" in her articulation) emerge from a collection of resources: "it is *resources* that, with few exceptions, must be acquired to obtain services" (p. 67, italics in original). Zahra *et al.* (2006, p. 927) argue that the word "dynamic" in dynamic capabilities is a critical qualifier that serves to distinguish resources and the ability to solve a certain type of problem in the present from the ability to reform the way the firm solves problems. In their model, resources and the problem-solving ability which resources confer "precede dynamic capabilities". Thus, the dynamic capabilities perspective assumes that the initial positions or configurations of resources are known to the organization's decision-makers. If a founder does not yet understand completely what resources he/she needs to build the new business, then thinking through how to move from one resource configuration to another simply makes no sense.

The second category of research often explores specific types of resources, usually at discrete stages in the new venture's development. Cross-sectional studies about knowledge resources (Wiklund and Shepherd, 2003), social network resources (Davidsson and Honig, 2003; Dubini and Aldrich, 1991), management team resources

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(Heirman and Clarysse, 2007) and technology resources (Newbert *et al.*, 2007), in what are generally termed young companies, represent the approaches taken in the bulk of this stream. In part, this body of work is helpful because it provides evidence that certain types of resources are, in fact, important in the development of new ventures. But this body of work fails to address the key questions we raise in the present study about "which resources, at what stage" for two reasons. First, research in this stream tends to focus on a single type of resource or subsets of resources rather than examining a comprehensive set. In addition, this research does not account for stages or phases of a firm's development or the context of the strategic challenges that firms are facing. What is missing from the focus on individual resources at specific times is a more nuanced view of the priority among possible resource investments and the relative importance of types of resources for unfolding strategic challenges over time.

There is a third category of empirical resource-based new venture research, but it includes only a small number of studies that examine resource development over short periods in new ventures. For example, Lichtenstein and Brush (2001) tracked resource development changes in three small companies longitudinally over just a 12-month period. They found that certain resources and bundles of resources are more salient at different stages of organizational development discernible within this short time frame and that these resource bundles change in response to the changing strategic conditions confronted by the firm. Brush *et al.* (2001) observed the same process in their study of two technology companies founded by the same individual. But another empirical study of resource development (Lichtenstein *et al.*, 2006) using a single case study over a short period (two years) concludes that entrepreneurs *tactically* organize based on whatever assets they happen to have on hand to tackle immediate challenges they confront and that ultimately they get around to strategic organizing.

As mentioned at the outset, new venture research which draws on resource-based theory is valuable because it offers the opportunity to uniquely understand the development of *ex ante* and *ex post* limits to competition that lead to sustainable performance. We know much already about starting up new ventures; we understand much less about how to start up new ventures that will be strategically sustainable over a long period. Thus, a renewed focus on strategic organizing and attendant strategic resource development over time in new ventures is warranted. For this reason, McKelvie and Davidsson (2009, p. S66) then point out that:

> […] yet, little is known about the "black box" role of which specific resources affect different capabilities […]. Understanding how and where specific resources affect the value-creating ability of a new firm is a necessary condition for managers to make effective decisions concerning their own resource investments, but also for academics in deriving more accurate theory.

More precise a priori theory would be helpful.

Methodology

The dearth of prior research on these questions suggests that an exploratory qualitative study is appropriate to develop initial insights and articulate a conceptual framework that extends resource-based theory. Following the recommendation of Eisenhardt and Graebner (2007, p. 26) for "theory driven research […] to offer insight into complex social processes that quantitative data cannot easily reveal", we draw upon firms in an industry that provide rich contrasts. We examine entrepreneurial growth in the wine

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industry in North Carolina. Since the 1990s, the industry has taken off with significant growth in the past decade, driven in part by an emerging interest by local entrepreneurs and investors in the state as a winemaking region. There are currently 109 wineries in the state and only 4 have failed over the past 20 years, a low mortality rate for new startups in an industry where both local and national legitimacy are difficult to gain.

Our research was principally ethnographic with interviews conducted with owners, general managers and winemakers in wineries in the Piedmont region of North Carolina between 2005 and 2011. The extended data collection period allowed us to meet with newly organizing ventures as well as others at various developmental stages. For theoretical sampling, Eisenhardt and Graebner (2007, p. 27) recommend that sampling should focus "more on the contribution to theory development within the set of cases. That is, multiple cases are chosen for theoretical reasons such as replication, extension of theory […]". We used three criteria to select our sample:

(1) recently started up (within the past four years);

(2) the owner was still actively involved in the management of the winery; and

(3) we sought variation in size (e.g. cases produced, sales revenue).

These criteria assured us of being able to observe a variety of new firms moving through phases of development over time and of confidence in the data collected through continuous owner involvement since start up.

Of the 41 wineries in the geographic region, 23 cases were deliberately chosen to provide contrasts in strategic orientation, stage of development achieved and market performance. None had been founded later than 2005 to give us an opportunity to assess growth trajectories and develop firm-specific histories. Desiring to include sufficient firms so that eventually we might observe firms progressing into later phases of development, we erred on the side of inclusiveness at the outset. Believing that we would, in fact, encounter stages or phases of development over the course of the research project, we projected that our sample might then yield four to five firms in each phase of development. This is precisely what we experienced by the end of the field research, allowing us to compare cases in the same phase, as well as compare cases across phases. The subsequent variation in size enabled us to assess differences, analyze their growth trajectories and identify and record key issues that were part of individual narratives and firm evolution.

Each winery was approached and appraised of our research interests and each agreed to allow us to visit, conduct interviews and share operational information. Interviews involved questions concerning background, operational details, financial issues and strategy as well as industry development. To avoid bias, every initial interview was started with the same open-ended questions, such as "Please tell us about the founding and history of your company". We also sought to avoid bias by introducing phrases or concepts that we were interested in understanding (Gioia *et al.*, 2012), so we avoided using the term "resources" in all of our conversations. As this study was one of people and processes, effort was made to capture rich contextual information about the dynamics of entrepreneurial activity that is generally lacking in mass surveys. Although we initiated our research with an interview question framework of questions about entrepreneurial activity, strategy and related development efforts, often the responses and ideas expressed by participants surprised us and prompted us to ask

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deeper and more penetrating questions. This was especially true for comments about the industry effects on internal company development. Our initial interviews lasted for 2-3 hours and included tours of the vineyard and winery. Every winery was visited at least two times during the research period, and we scheduled follow-up interviews on different occasions in 13 instances, generally two years after the first session, to discern additional facts and to better gauge subsequent progress.

We sought to alleviate concerns about the use of sole respondents in interviews in several ways. First, we often spoke with more than one individual at any winery – usually an owner as well as the winemaker. In addition, we examined Web sites of all 41 wineries in the Piedmont to learn as much as we could about ownership and winemaking philosophy. We monitored local newspaper articles, trade publications and technical magazines to garner public information on winery development in the area, and we used NC Department of Agriculture and Department Commerce descriptive statistics to examine aggregate production trends. Finally, we also consulted previous studies of mature wine industries (Simons and Roberts, 2008; Swaminathan, 2001; Taplin, 2011) to gain perspective on contextual contrasts between the NC wineries and those elsewhere. Thus, the insights we gained are based on primary and secondary data from multiple sources (Eisenhardt and Graebner, 2007; Yin, 1994). In total, our data included 60 hours of semi-structured interviews with multiple organizational members and secondary documents totaling over 800 pages.

The interview protocol did not actually call for specific inquiry about categories of strategic resources associated with the resource-based theory. Instead, such categories and concepts emerged as "second order" themes out of the data analysis and interpretation (Gioia *et al.*, 2012). As mentioned earlier, defining strategic resources can be problematic, for both researchers and practitioners. A literature review of resource theory conceptual and empirical studies identified both types of resources as well as specific items that types of resources may be characterized by (Brush *et al.*, 2001; Zander and Kogut, 1995). This resulted in a comprehensive list of 28 items that related to 7 conceptual types of resources. The presence of resources were identified based on the interpretation of interview data and interviewee statements around certain ideas, such as "the complexity of starting a business" (startup knowledge resource), "creating important new relations with other people and firms" (formal network resource) and "having the necessary financial sources and contacts" (financial resources). Through the period of the research, we expanded our resource categories from 7 to 9, as our original theoretically derived "knowledge resource" type was too broad and did not account for two distinct knowledge types that emerged from our interviews – "startup knowledge" and "management knowledge". To triangulate on the existence of resources, we also examined financial reports and daily operational details that could be objectively recorded as well as less tangible features, such as inter-firm relations and perceptions of industry viability.

The analysis of the data followed a four-step process:

(1) identify key strategic challenges confronted by the companies over time since their founding;

(2) identify strategic actions and intentions of the companies over time since their founding;

(3) identify the development and presence of resource positions within the companies over time; and

(4) map resource positions, actions and intentions onto strategic phases of development.

This approach is similar to a process used in other qualitative studies of resource-based theory in entrepreneurial firms (Lichtenstein and Brush, 2001) and follows recommendations made for qualitative research by Wolcott (1990). This approach is also consistent with the contention of Ambrosini and Bowman (2009) that resources may be decoupled from firm performance and, instead, may be relevant if they are connected to strategic demands or achieving competitive parity. The co-authors compared their categorizations and mapping, and where disagreements occurred, differences of opinion were discussed leading to unanimous agreement about how to interpret the data.

Findings

In this section, we first describe three types of new ventures that emerged from the analysis of the data. As we followed the 23 wineries over a period of years and collected historical perspectives and documentation about them, the description of each type tells a story of development that generalizes across the type. Following this discussion, we offer propositions resource development in the context of different phases and in the context of industry evolution.

By the conclusion of the study, we had gathered data on how 23 companies navigated up to four strategic phases of development across a 10-year period (including years prior to the beginning of the research). As we considered the observed patterns and configurations of resource development, what emerged from the data was a clustering of types of wineries. From the 23 cases, we identified three distinct types of wineries, categorized primarily by their strategic vision and goals as expressed at their founding. Correlates to this primary distinguishing facet were their size and annual production goals and their financial backing when entering the industry. We label the three types as "Cult", "Boutique" and "Avocateur" wineries. A better understanding of each of these types sets the context for the discussion of phases of new venture development and their parallel resource development priorities.

"Cult" wineries

These were created by individuals with extensive financial and previous business experience who at the outset established capital-intensive operations (large winery and tasting room, extensive planting of vines, experienced professional winemaker and vineyard maintenance staff). There are four wineries in this category with an annual production varying from 7,000 to 35,000 cases.

The key foundational resource for Cult firms was financial, which enabled them to hire the best people to develop the vineyards and the wine, leading to rapid advancements in their own technology resources. Each hired a full-time, professional winemaker with industry experience, a full-time vineyard manager as well as a part-time assistance for vineyard maintenance and harvesting. Everything was formalized contractually and each experimented with grape varietals to determine which was the most applicable for the region.

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In each case, winemakers said that their initial years were devoted to understanding the region and its potential for certain varietals. Having developed a more explicit understanding during the initial years of sound practices for producing *vinifera* products in this region, they then planted more acreage, increased bottling capacity and engaged in marketing well outside the Piedmont area. To do so, they turned increasingly to developing industry-relevant managerial and organizational resources to handle growth.

Each of these wineries has been able to exercise leadership in informal governance and dramatically increased the stock of knowledge through developing and disseminating codified practices and new operational logics as components (Tallman *et al.*, 2004) of the grape-growing and winemaking process. Their role as central figures in emerging growers' associations, such as the NC Winegrowers Association, has enabled them to articulate issues of concern to all in the industry. From vineyard management, harvesting and cellar maintenance to sales and marketing, they have been instrumental in providing a framework of region-specific knowledge.

The Cult wineries have stimulated collective organizational learning by providing tangible evidence of the benefits of technical innovation, but they have also sought to improve the overall legitimacy of the industry by extensive regional and national marketing of their wines. Their financial resources enabled them to invest in worker training and education, market information and establish links with intermediaries in ways that have positive effects for all firms in the cluster. Their role is, thus, consistent with what Visser and de Langen (2006) argue in their analysis of cluster governance of the Chilean wine industry, whereby leader firms combine a superior strategic insight and an ability to raise funds that permit collective investments that have a positive impact on the quality of that governance. Their ability as well as incentives to invest can enhance the capabilities and insights of other firms, especially those that work directly with them in collaborative ventures.

Accumulated local and extant technical knowledge has now created a baseline for operational success that necessitates greater resources for both existing firms and new entrants than a decade ago. As one winemaker summarily stated:

> […] it's taken us four years to figure out terrain and two more years of planting different varietals to decide what really grows best. Now we're focusing on these. Maybe after 10 years we'll be better able to start making some proper informed decisions about wine in the area. Until then, it's really a crap shoot!

Based on our interpretation of interview data and other artifacts, Cult wineries appeared to develop resource positions in four different phases, reflecting the strategic and industry context challenges they confronted. These four phases are characterized by:

1. the need to develop initial resources;
2. instrumentally developing additional resources;
3. combining and developing explicit routines and processes; and
4. coordinating and making best practices tacit.

Figure 1 illustrates the sense of the resource development path for the Cult wineries.

"Boutique" wineries

The second type were six wineries with modest financial assets but who are still able to invest in a winemaking/tasting room facility, smaller acreage vineyards and who use

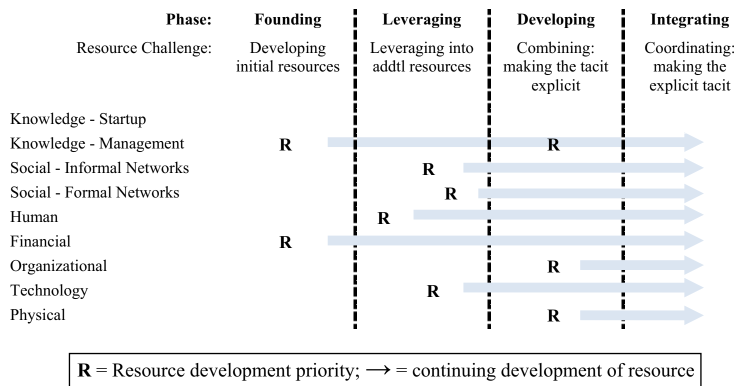

Figure 1. Map of "Cult" winery resource development path

one or two vineyard maintenance staff and generally use a consultant winemaker while fulfilling other administrative tasks themselves. Their aim is to remain small (1,500-2,500 case production) and attain profitability within 5-10 years of opening.

The Boutique wineries appear to be the more traditional sort of entrepreneur, because they are growth-oriented from the outset and their ability to raise financial capital to start up depends on an *ex ante* articulated vision and strategy they have for a sustainable enterprise. At founding, they are able to broker their unique view of opportunity to raise capital. Their emphasis upon strategic sustainability, quality and a commitment to winemaking (as opposed to other tourism-related activities) resulted in their embrace of professional services for key activities, such as vineyard maintenance and winemaking. Having the right people in place for technical development gives them credibility to participate in the formal network, through which they further enhance their knowledge about best practices. While embedding many of the skills associated with running a winery through acquiring such human resources, the owners nonetheless acknowledge the importance of long-term reputation building for the industry that necessitates a professional approach to key operations. As a consequence, they all contracted vineyard management services, four out of six used a consultant winemaker and two established formal relationships with custom grape crush facilities following harvest. Management of the tasting room and general wine marketing are tasks that they retain for themselves, as they perceive these as generic operations that can be more easily learned.

We note, however, that Boutique wineries – in contrast to that observed with the Cult players – use their networks reciprocally to a far greater extent. They all indicated that they extensively used contacts in area wineries, shared information informally and participated in whatever seminars were put on by the NC Winegrowers Association. All but two were active members in this association and rotated on and off the board. When asked specifically about their, and the associations', role in knowledge transmission, they commented on the importance of having a conduit for the exchange of ideas. As one said, "it's a process of give and take and we've taken a lot over the years, especially at the beginning".

Whereas the Cults use networks directionally to impart ideas and learning out to the industry, the Boutiques both get from and give to the networks as time goes by. This sort of iterative process, approximating experimentation with ideas, facilitates learning and more

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rapid movement by the Boutiques toward best practices. Although they have not started up with the rich financial resource positions enjoyed by the Cults, the development of this bundle of resources with rich interactions among components provides a strong foundation for growing the business. It subsequently leads – as with the Cult wineries – into the development of managerial, organizational and physical resources.

As winery density increases, the benefits of innovation-oriented cooperation become more apparent, especially to this group whose owners share a long-term vision for the industry but who lack the financial slack enjoyed by the Cult wineries. This group is most likely to recognize that individual success is predicated upon the growth of a collective identity; the more wineries that are established, the greater the likelihood of seeking cooperative solutions to problems and overcoming the liability of newness. But they also acknowledge that key sources of information reside in expert professionals who are winemakers at the local large wineries, and these individuals have emerged as knowledge gatekeepers.

For Boutique wineries, knowledge seeking effort to imitate best practices has been more purposeful and structurally embedded rather than random scanning. These individuals recognized that what might have worked when the industry was first taking shape regionally – informal and unstructured network relationships generating tacit knowledge – is now surpassed by the need for more structured hierarchical relationships where important operational details have become codified. Having the financial resources to contract the services of professionals with the technical skill sets and a willingness to implement advice that they might impart has meant that Boutique wineries are more likely to produce quality products, which in turn has helped to further legitimize the local industry.

Boutique wineries followed a similar, but not identical, four-phase path of development. Figure 2 captures the sense of the resource development path for the Boutique wineries.

"Avocateur" wineries

The final group (13 wineries) is more eclectic, consisting of those who perceived an opportunity to convert inherited agricultural land into wine growing or who bought property as part of a lifestyle change; those who have been growing grapes for a number of years, selling to larger wineries and now decided to develop their own winery; and those who

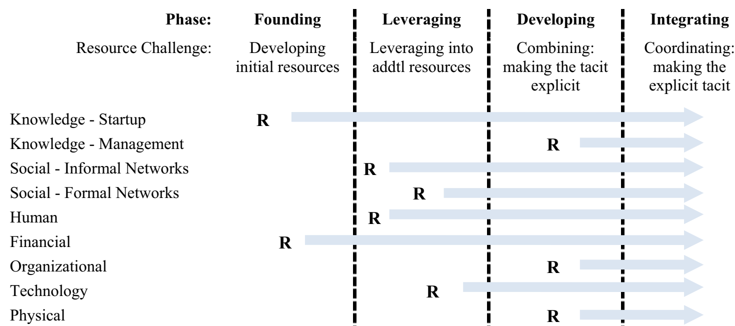

Figure 2.
Map of "Boutique" winery resource development path

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had developed a passion for wine after a visit to Bordeaux or Napa Valley and decided to pool their resources with some partners with shared interests and start a winery. The capabilities of this category vary considerably, with some devoting full energy to their projects, while others relied upon their "day job" to cross-subsidize the vineyard. They are likely to do most of the operational tasks themselves and had limited financial assets; in some, they were dependent upon bank funding. With modest production aims (500-2,000 cases annually), these entrepreneurs were termed the "Avocateurs", for whom the business aspects are secondary considerations because they view this business as an avocation and with only amateurish understanding at the outset.

This group is more likely to pursue "trial and error" practices as well as seeking formal training in enology and viticulture at the local community college (11 of the 13 cases) that they hope will provide them with some basic skill sets and routine operational knowledge that they felt was not easily available from networking. They recognized that gaining access to appropriate resources at the founding stage would be difficult, as they lacked the requisite filters through which to evaluate information that would be provided informally via networks. They also believed that the explicit information provided via formal education would improve their chances of successfully establishing the winery, presumably by better qualifying them to access appropriate resources later on.

Their enthusiasm for learning should not, however, be confused with endowed skill sets, as most acknowledge that they face a steep learning curve, do not readily understand exactly what it is that they need to learn or what resources they need to develop, how various resources interact and often struggle with acquiring the routine operational details plus site-specific idiosyncrasies. The central problem is that winemaking provides a once a year opportunity to get things right; failure can be costly under such conditions. The natural variation in climate and growing conditions makes it difficult to identify issues that were causally related to subsequent problems. In other words, it continues to be expensive to "learn by doing"; yet they often lack the technical knowledge or the resources to avoid such a behavioral approach. Many massively underestimated the costs necessary to sustain them in the early years.

Seven of the wineries said it was much more difficult selling their wine than they had imagined, having put their resources into making wine as best they could but then found that they lacked the reputational significance to sell the volumes they produced. Two wineries have, in fact, reduced production by 20 per cent over the past three years, and all but one had undesired inventories from previous vintages.

Wineries in this category are the ones most likely to stage weddings and other "formal" events and market themselves accordingly (Taplin and Nguyen, 2016). In fact, in six of the cases, weddings were seen as a necessary source of income, and in two of them, owners said that this was their "real" focus. In each case, such events provided them with the revenue that enabled them to stay in business. Not surprisingly, wine quality is more likely to be problematic in these instances, as resources go to the immediate revenue stream of "events" rather than the longer-term prospects of winemaking. Unfortunately, this can impair the overall reputation of the industry in the area, thus damaging the marketability of others' wines.

Figure 3 captures the sense of the resource development process for the Avocateur wineries. These wineries by and large approach founding without knowledge, without a strategic vision and without financial resources. The owners simply have an idea, and to further their idea, they first participate in formal networks through which they are

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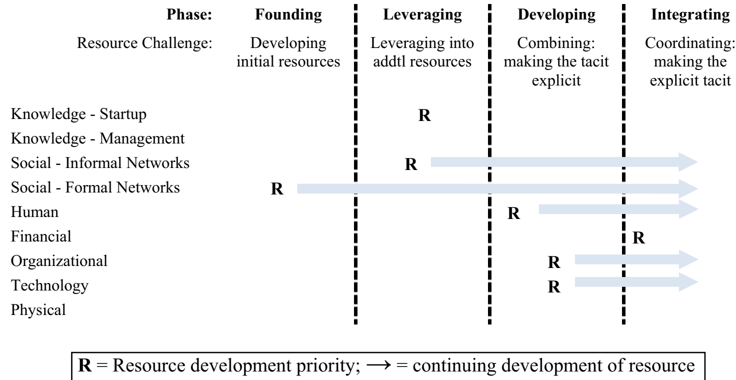

Figure 3.
Map of "Avocateur" winery resource development path

recipients of explicit and codifiable information and knowledge that others already possess. Understanding *terroir* and the tacit dimensions of this business is not on their radar. Thus, their progress in leveraging into other strategically important resources is slow, almost linear and sequential rather than bundled. In the long run, they usually have struggled to acquire some financial resources and – even further down the road – possibly more sophisticated concepts about managing the business.

Industry context

The generic process of growing grapes and making wine is not that difficult; understanding the subtle aspects of *terroir* comes from both experience and the ability to trouble shoot on a continuous basis. But while technical skills are available in a generic form, the tacit understanding of local conditions is a form of knowledge that is yet to be codified. It is discernible to professional winemakers but less accessible to those with minimal experience.

In what we would describe as the industry's early development stage, one can identify growth trajectories as contingent upon resources that are widely different but nonetheless sufficient to sustain operations for three-five years without revenue streams (vine maturation period plus barrel storage for red wines). During this period, knowledge acquisition tends to be unsystematic, in part because knowledge is tacit and not codified or because there is limited knowledge available in the first place, given the industry's infancy. However, Cult and Boutique wineries were able to hire consultants to provide generic information or even to hire a professional winemaker with previous experience. Financial resources are crucial in this stage, as they provide the means to acquire requisite operational knowledge that is not yet locally formally developed.

As the regional industry enters its next stage and begins to acquire a collective identity, interactions among companies become more dense and structured. Through access to codified information at local community colleges where many new entrants gain operating knowledge, a more explicit set of winemaking parameters is dispersed. At this stage, informal associations are transformed into formal industry organizations designed to disseminate best practices and provide a more systematic context for networking and knowledge sharing. At this time, Cult wineries increasingly play a leadership role as well as begin to establish benchmarks for the industry.

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The Boutiques and Avocateurs face different challenges during this industry stage. The formers' resources permit experimentation, but they rely upon gaining contractual access to detailed operating information via their use of consultants. They gradually build their resource base position by formalization rather than "learning by doing". The latter continue to depend upon informal and emerging formal networks but, as a consequence, are more likely to be random and unsystematic in their knowledge acquisition. They attend classes at the local colleges, ask specific information of neighboring wineries and seek to develop an understanding of a wide range of operational norms via such channels. The only thing that they are less likely to seek information on is sales and distribution – issues that they perhaps possessed knowledge of prior to entering the business or can be gained via available business plans. This suggests that Boutique firms use more *ex ante* strategic thinking about their business, while Avocateurs tend to use more bricolage by tactically making do with whatever is around.

For growth to become sustainable around product quality and an expanding regional marketplace for wine, the knowledge required to successfully compete has become more complex and difficult to access either informally or formally. Whereas the early phase of the industry creation not only enabled those with heterogeneous but also limited bundles of resources and capabilities to acquire limited operational knowledge via informal social networks, the more complex knowledge base in the current phase necessitates more formal contractual relationships. This can constitute an obstacle for new entrants and result in their marginalization from the collective organizational learning that is occurring in the cluster. But in addition, as Tallman *et al.* (2004) discovered, in the later stages of industry development what the more established companies share through any type of network is far less valuable to younger and smaller companies. Their "architectural" knowledge is complex, systemic and therefore tacit, not lending itself to sharing easily. And because they usually have developed their own positions of competitive superiority through their own well-developed resource positions, even though they are desirous of fostering a stronger industry reputation, they become increasingly reticent to fully share strategic investments and dimensions that have made them superior performers.

The Avocateur wineries suffer most in this respect because they have been unable to acquire the upgraded operational knowledge in the first place, lack the resources to rectify problems that they might have encountered and fail to understand how resource components might work in synch. Boutique wineries continue to build their resource base, focusing upon improved operational proficiency, limited but sufficient profitability and a stable growth trajectory. Their reliance upon combining contractual relationships, cementing informal and formal networks through membership of associational groups, as well as improved knowledge specificity for certain operations, continue to endow them with capabilities that permit such growth. As operational knowledge becomes more detailed and precise, those firms best able to capitalize upon this growth are those that are able to aggregate disparate resources (extraneous and internal) and capitalize on key industry metrics for overall efficiency.

Propositions on resource development

The critical dimension that drives our model is the nature of the strategic issues and demands that are placed on a new venture at its stage of organizational development. New ventures must invest in resources that are consistent with their intended strategic

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approach (Andersen, 2011; Newbert *et al.*, 2007; Zahra *et al.*, 2006). But in addition, new firms experience different strategy-related challenges and problems at different stages of development (Covin and Slevin, 1997; Kazanjian, 1988). The assembly of the right sets of resources to address stage-specific strategic issues is, thus, critically important for new ventures (Levie and Lichtenstein, 2010, p. 2896; Mishina, 2004, p. 2826).

The findings among our 23 in-depth case studies suggest that a phased model is useful in understanding levels and configurations of resources needed by new ventures. The phases we explore more carefully herein are defined by the strategic challenges the new venture confronts and include names suggestive of resource development needs that new ventures experience as they progress from startup to a high level of self-sustaining activity: founding; leveraging; developing; and integrating. We emphasize that the classification of these dimensions represent stylized conditions that are useful for theoretical analysis, even though they oversimplify the nature of new venture development that lies along a continuum of the dimensions. The mapping of resource factors/types onto development phases reflects the contextual importance of resources when new ventures confront varying strategic challenges and is indicative of interactions among resources in any one phase of development.

The strategic challenges confronting new ventures in the founding phase have to do with the articulation of the opportunity. Grand visions require grand plans and proactive efforts to understand how such plans can be put into play. Thus, varieties of knowledge may be important to new ventures. Knowledge resources encompass "know-how" and "know-what" (Malecki, 1997) about markets and customers, innovation capabilities and dimensions of starting up new ventures (Wright *et al.*, 1997). Wiklund and Shepherd (2003) identify varieties of procedural knowledge, including managerial knowledge and startup knowledge, that are critical for its subsequent development.

But knowledge and ideas are inert without some other type of activation resource, and this is typically some level of financial support commensurate with the nature of the opportunity. In a similar vein, access to financial resources would be meaningless unless paired up with some idiosyncratically developed knowledge about a new opportunity. Together, these resources both frame and provide activity to further efforts to develop a new venture.

Cult and Boutique winery development relied upon both knowledge and financial resources to move through their founding phases. In contrast, the Avocateur wineries, many of which have not made significant development progress, lacked either startup or management knowledge as well as financial resources:

P1. Successful new ventures are those which develop knowledge and financial resources during their founding phase.

The leveraging phase describes new ventures that have moved beyond initial founding and which have begun to address the strategic issues of research and development. Such issues at this stage tend to be focused on the invention and development of a product or service idea and on planning for the estimated market introduction of the new business. Here, the new venture develops appropriate understanding of the market space that will insulate the firm from competition.

But every new venture also needs other resources that provide some utility for the fledgling operation to be. Through a variety of information processing activities and

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informal networking (Busenitz *et al.*, 2003; Dubini and Aldrich, 1991), the entrepreneur develops refined asymmetric knowledge about the opportunity's real potential (West, 2003) and is then able to "broker" such knowledge to begin establishing legitimacy and credibility and begin exchange in the marketplace (Katz and Gartner, 1988). This enables the venture to attract and develop additional resources.

At the same time, formal social networks become important for two reasons. First, such networks can help to enhance internal technical knowledge by connecting with industry players and associations to better understand and conform to standards emerging in the industry. They can also aid founders in cultivating investor, supplier and customer contacts in expectation of cementing future relationships (Dubini and Aldrich, 1991; Johannisson, 2000) and in beginning to assemble a stronger management team.

The Cult and Boutique winery types each exhibited precisely this combination of resources as they moved beyond startup. In contrast, the more slowly developing Avocateur firms were struggling to develop a base of knowledge long after they had started up and were heavily reliant on just networks in this process:

P2. Successful new ventures are those which develop human, technical and networking resources during their leveraging phase.

The next phase of resource development in new ventures is the developing phase. Kazanjian (1988) refers to this as the commercialization stage of the firm life cycle and comments that new ventures need to deal for the first time with creating tasks and systems, marketing functions, the hiring of new sales people and managers and managing the production of products or services on a scale appropriate to the market. For many new ventures, going to market also triggers significantly greater cash needs for investments such as advertising and promotion, sales travel and other market-related expenditures. Thus, from a resource point of view, new ventures need to develop and/or acquire significantly enhanced management expertise to successfully navigate the commercialization stage, as well as continue efforts to build financial resources.

Successfully commercializing also requires a much clearer understanding of how things work. The manufacture of products or services demands that management knows explicitly how physical assets can be deployed. So part of the resource development challenge during this phase is combining and making explicit the tacit nature of the combination of resources it has assembled. Now, the firm is becoming externally focused and needs to ensure that the accumulation of various resources translates effectively into manifesting the product or service and responding to the market. By seeking to articulate internally the various tacit dimensions of its resource positions, new venture management can facilitate enhanced learning about the market and can, thus, improve the effectiveness in their business model (Winter, 1987).

Once more, the Cult and Boutique wineries exhibited precisely this combination of enhanced management knowledge, organizational and physical resources as they moved into commercialization and growth expansion stages of development. The market development of Avocateur firms was halting because they still lacked financial resources, possessed poor management knowledge and were just beginning to understand winemaking technology:

P3. Successful new ventures are those which develop management and physical resources during their developing phase.

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The integration phase addresses the significant challenges that new ventures confront when they seek to grow to a self-sustaining level. During this phase, the primary strategic challenge for the new venture is to create efficiency by expanding the scope of its operations, accommodating greater volume and generating profits (Kazanjian, 1988). This is largely accomplished externally through market expansion (Lumpkin and Dess, 1996) in combination with internal improvements in organization and coordination (Greiner, 1972; Miller and Friesen, 1984). Now, the venture must invest in additional organizational resources to effect improved routines and efficiency in internal operations and in additional financial resources to fund a higher volume of business across a broader market scope and to secure necessary physical assets and infrastructure.

The nature of the resource development challenge during the integration phase is also qualitatively different from what the new venture has previously encountered. Whereas in earlier phases, resource development has been characterized largely by acquiring, combining and leveraging different types of resources, in the integration phase, the true challenge is to achieve the kind of coordination (bundling) among the various resource positions such that the firm can be both efficient and effective (Alvarez and Busenitz, 2001; Penrose, 1959) and leads to firm growth and sustainable advantage (Kogut and Zander, 1992).

The challenge of managing resources during this phase is also one of making tacit what had become explicit in the earlier phase. In contrast to the earlier phase, management's goal here is to routinize and institutionalize best practices which successfully further the firm's business.

Our interviews and data clearly indicated that most Cult and some Boutique ventures have moved into the integration phase, in which their attention is focused on developing reproducible routines and achieving effective coordination. None of the Avocateur firms was even close to addressing these strategic challenges, as they were largely mired in earlier phase challenges still:

P4. Successful new ventures are those which achieve effective coordination of previously developed resources during their integration phase.

Industry context as contingency

The phased model outlined above is subject to industry context contingencies that others argue should be included in new venture research on resource development (Sirmon *et al.*, 2011; Wright and Stigliani, 2013). As the essential argument is that resources are developed to address strategy issues of competitiveness and rent-generation, when industry and competitive contexts change, it will have some effect on the resource development process at the individual firm level (Demil and Lecocq, 2010; Levie and Lichtenstein, 2010). This is especially important for the development and use of knowledge and networking resources in organizations. Audretsch and Feldman (1996), for example, find compelling evidence that tacit knowledge spillovers occur frequently and are important in the early stage of an industry's development, but that in later stages of the industry's life cycle, there is a "congestion effect" that impedes the flow of useful knowledge about innovative behavior. In early stages of an industry's development, "component" knowledge about identifiable aspects of a business practice is more easily codifiable and shared across networks; however, as an industry matures and some firms emerge as leaders, "architectural" knowledge about an entire system of coordinating and integrating

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routines that confer competitive advantage is neither readily transferable nor are firms particularly keen on transferring it if they even could (Tallman *et al.*, 2004).

Although it is our contention that any venture must navigate the phases in our model to achieve sustainable advantage and rent generation, the paths followed by new ventures – as well as the time available to follow paths – will vary depending on the industry context. When industries themselves are in the formative stage, formal networks are likely to be less well-developed than later on. Informal networks will be more valuable for new firms in new industries, but informal networks may not be of great value for new firms in maturing industries. As a result, early forms of informal knowledge exchange that occur in an incipient cluster of new firms become more formalized and accessible to those with greater resource bases. In contrast, when an industry is at a more developed or mature stage, both formal networks are well-developed and more easily accessible to all newcomers. However, in this type of industry environment, the sort of knowledge passed through such networks may be less useful, requiring newer firms to take longer to figure out what they must do:

P5. New venture success depends on resource investments that vary in amount and timing according to the industry context.

Discussion

At the outset of this paper, we pointed out that there has yet to be developed a systematic view of which resources to develop at different times across the life cycle of new ventures. Examining resource types and using existing theory, we suggest that there are phases to this process that lie across two dimensions. The first dimension is the nature of the strategic challenges confronted by new ventures at various phases, while the second dimension is the industry stage context and resulting competitive interplay among its members that affects firm-level resource development. Our model describes configurations of resources at four phases in new venture development. These stylized phases – founding; leveraging; developing; and integrating – are nonetheless useful for analysis.

The results of our qualitative study of a variety of companies starting up and competing in the North Carolina wine industry lends support to our propositions. We observed significant movement of two types of wineries along resource development paths (Table I). All of the Cult wineries and 66 per cent of the Boutique wineries had progressed strategically into the developing or integrating phases. In contrast, 84 per cent of the Avocateurs remained mired in the founding or leveraging phases. Our interpretation is that the Cults and Boutiques, explicitly organizing strategically at the outset and drawing upon knowledge and financial resources during their founding phases, assembled the right sets of resources at the right time to navigate the challenges they were confronting. The less strategic Avocateurs, organizing tactically or via bricolage, have made less progress toward long-term self-sufficiency as wine producers.

		% in phase end of study			
Type of winery	Average years in operation	Founding	Leverage	Developing	Integration
Cult	10	0	0	25	75
Boutique	9	17	17	33	33
Avocateur	8	46	38	15	0

Table I. Status of wineries

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These findings can be an important addition to the new venture literature because they do begin to answer the pivotal question we posed at the outset, "which resources, at which stage?" We find herein that some resources are more important at some phases of venture development, while less important in others. If subsequently confirmed in additional research, then this can provide a very practical guideline for future founders of new ventures.

We also observe that resource bundling is apparent in those companies that are more successful. For both Cult and Boutique wineries, during the leveraging phase, the bundling of and internal interactions among four resource types was pivotal (formal networks, informal networks, human resources, technology resources), and during the developing stage, another bundle emerged as critical (managerial knowledge, organizational systems, physical resources). In contrast, in the less successful Avocateur wineries, this bundling was not apparent; the development of resources in these firms tended to be more linear with resources used or operating independent of each other. Thus, founders should be focused on configurations at different phases of development rather than on individual resources.

Although these conclusions are based on qualitative research involving a series of interviews with winery owners and managers over a period of years, some post hoc quantitative analysis provides further support for the propositions on resource configurations through the developing phase. We converted observed resource positions on the path maps for each of the three types of wineries (Figures 1-3) into a tabular matrix using dichotomous variables, with a 1 representing the presence of a particular resource and a 0 no presence. The correlation between the Cult and Boutique firm resource positions in this matrix is 0.822 ($p < 0.001$); these two types of firms tend to display similar resource configuration patterns despite different founding conditions and different strategic orientations. The pattern of resource configurations for Avocateur firms is not positively correlated with either of the other two types.

Surprisingly, and in contrast to some previous studies, startup knowledge is not universally important here. But some sort of knowledge appears to be necessary. For both Cult and Boutique entrepreneurs, having a clear vision of what they seek to accomplish is a critical element in their ability to secure additional resources. This neither is startup knowledge nor is it managerial knowledge. This sort of clear vision seems to be a form of "opportunity knowledge", a gestalt view of the interstices in the industry that can be occupied through entrepreneurial efforts (Penrose, 1959). This knowledge lends credibility to the new venture, can lead to more successful efforts to raise startup capital and can be instrumentally used to develop another suite of resources important in the leveraging phase.

Previously, resource-based theory has more or less viewed strategic resource development as a within-firm construct. Yet because the bundling and rich internal interplay between resources is so important for firm development and growth, when industry context affects one resource, it can affect the bundle. It is in the joint evolution of companies and industry that different interdependencies become prioritized and what might have been a sufficient condition in the early stage becomes a necessary one in the later stages.

New firms need to develop knowledge, physical, financial, social, human, organizational and technological resources to succeed in their efforts. As firms evolve over time, they confront new strategic and competitive challenges in a manner calling for additional investments in phase-appropriate resources. While early success at *vinifera* growing is contingent upon access to localized knowledge sources, it is apparent

that other resources are crucial for subsequent stages where more detailed and systematic knowledge is crucial. Without access to professionalized information, smaller wineries can become stifled and introspective in their techniques, institutionalizing flaws rather than mitigating them.

It is a complex two-way interaction, as for appropriate resources to be attained by individual firms, the collective reputation of the local industry must grow in such a way as to legitimize incumbents and further the demand for their products. It is this legitimacy building that invariably emerges when clusters of firms cooperate in a geographic location, exchanging tacit knowledge, facilitating generalized information exchange and encouraging specialist firms that service the industry to co-locate (Taplin, 2011). The phases presented in our model are indicative of such legitimacy building inasmuch as wineries that are likely to prosper are ones whose resource bundles most facilitate knowledge access and technique implementation.

These ideas shed further light on the argument put forth by Levie and Lichtenstein (2010) that a linear-stage development model of new venture emergence is inappropriate. The various combinations of early/later new venture in a formative/developed industry suggest that some may proceed rapidly in a linear fashion through phases of development, while others may find progress slow, difficult, stalled or occasionally regressive.

Finally, the results of this study suggest avenues for future research on new ventures using the resource-based theory perspective. First, the findings offer enhanced opportunity for the productive application of the dynamic capabilities concept to new ventures. The dynamic capabilities argument is about moving from one configuration of resources to another. By identifying bundles or configurations of resources at different developmental phases, those interested in dynamic capabilities now have an initiation reference point.

The integrative view outlined in this paper highlights two additional facets of resource development in new ventures. First, a combination of resources developed simultaneously in a non-linear pattern appears to be critical to the success of new ventures. Moreover, the view that resource combinations must evolve as the strategic challenges evolve brings an important contextual view to the examination of dynamic resource development efforts. So attempts to focus in a piecemeal fashion on individual aspects of resource development, without accounting for resource interactions at a systemic level or the nature of the strategic demands, is likely to leave researchers and practitioners with incomplete insights. Second, the measurements of success in efforts to grow new ventures should go beyond the obvious visible metrics, such as number of new customers or sales revenue generation. The accumulation of initial sets of resources may instrumentally lead to the ability to develop higher-level resources that in turn enhance the long-term prospects of the new venture (Ambrosini and Bowman, 2009). Thus, founders and investors should discover methods for assessing their developing resource bases as evidence of progress in new venture development.

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