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Fault lines: emerging domains of inertia within the Australian wine industry

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It is common knowledge that the Australian wine industry has enjoyed remarkable success over the past three decades in terms of production and export growth, innovation and reputation for consistent quality. The centralization of resources and infrastructure, as well as the nationally-oriented funding and R&D agendas are usually cited as providing the foundation for this success. Yet in more recent years it is this same nationally-focused centralization that is increasingly at odds with a rapidly changing international wine landscape and therefore, the organizational and innovation requirements of the firms that must respond to these changes. This paper explores these issues within the theoretical context of what it has termed domain inertia – an industry-level dislocation between oganization and firm imperatives. Arguing that neither traditional organizational or innovation-based change theories deal with the complexities of industry-level inertia the paper attempts to move beyond orthodox theoretical parameters. In so doing, it adopts a somewhat unique theory that places organizational and innovation inertia within a widening domain of discordant industry-level imperatives.

Keywords

Wine industry, domain inertia, innovation, organizational, firm.

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This paper explores these issues within the theoretical context of what it has termed *domain inertia* – an industry-level dislocation between oganization and firm imperatives. Arguing that neither traditional organizational or innovation-based change theories deal with the complexities of industry-level inertia the paper attempts to move beyond orthodox theoretical parameters. In so doing, it adopts a somewhat unique theory that places organizational and innovation inertia within a widening *domain* of discordant industry-level imperatives.

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In 2006, the Australian wine industry has approximately 2000 participating firms, with 166,000 hectares under vine, and demonstrates extraordinary growth rates in industry participants and product volume. It is a leading exporter, dominating the popular-premium price points in the world's two largest wine markets - the UK and the USA - as well as representing approximately 10% of the global wine trade.[1]

In terms of structure, the industry is populated by a very small number of large, international firms and approximately 1,970 small and medium sized firms. These firms are concentrated in a number of regions within four of Australia's states – New South Wales, Victoria, Western Australia and Victoria. The regions of South Australia make up what is often referred to as the industry's dominant wine cluster.[2] Infrastructure and resource planning within the industry is highly centralised in comparison to other New and Old World wine industries. The Grape and Wine Research and Development Corporation (GWRDC) is at the 'hub' of this structure as the intermediary body that collects R&D levies, matches these levies with government funding, determines R&D priorities, resource allocation, and industry vision. In addition, there is the Australian Wine Research Institute (AWRI), which conducts the majority of the industry's research, the Australian Wine and Brandy Corporation (AWBC), which controls information, promotes and regulates the industry, and the Winemakers' Federation of Australia (WFA), which supports the industry on strategic and promotional issues.[3] These, together with other national wine organisations, represent the public sector side of the industry and are all located within the South Australian wine cluster.[4] The industry's centralisation was a key component in its transition from cottage industry status to a leading producer and exporter. Over the past two decades the industry has also been used as a template of innovation and knowledge diffusion for other New World wine industries. To the casual observer it is a model industry that displays dynamic organisational characteristics.[5]

Yet a more intimate examination reveals what may be emerging as 'fault lines' within the industry. These fault lines refer to a growing gap in imperatives between the major regional wine clusters and the industry level organisations that service them. In terms of regional identity, branding support, R&D extension and decision-making, the gap in priorities, strategies and even expectations appears to be widening. Such fault lines reflect an operational and conceptual void at the industry level, which this paper will argue is, in fact, a void represented by a hybrid of structural, innovative and behavioural inertia. This hybrid will be referred to as *domain inertia*.

Traditional Interpretations of Inertia

Depending on the field there are many and varied interpretations of inertia. Furthermore, confining these interpretations to *organisational or innovation theory* alone does not offer significant clarity. Even within these fields there is still a myriad of variations, models and in some cases contradictions.

One of the more pronounced theories is that offered by Hannan, Polos and Carroll[6] who, building on Hannan's and Freeman's[7] original model, define inertia as "*a persistent organizational resistance to changing architecture*". It is argued that structural and architectural inertia have deterministic qualities; that they emerge through a Darwinian type of natural selection and that the longer the organization survives, the more static it inherently becomes.[8] Hannan and Freeman's sympathy towards this inertial paradigm is evidenced by another of their definitions, which states that inertia is *"the inverse of the hazard of initiating change"*.[9]

Such sympathy is common among population ecologists, who tend to view shorter-term inertia as preferable to structural and architectural change. They contend that by maintaining an approximate status quo, organisations do not expose themselves to abrupt variations or directional change and thereby reduce the risk of mortality.[10] This also fits within the Hannan and Freeman[11] 'reliable action' model, where an organization acting reliably will provide prompt, quality service and products with appropriate accountability. Reliability and accountability, they contend, require structures that can be replicated easily and cost-effectively, a type of standardisation which, of course, requires conservative action, or resistance to change.[12]

The argument deriving from these two viewpoints is that inertia maintains organisational linkages, internal dynamics, hierarchical and operational legitimacy, as well as structural arrangements that have evolved over time. To apply substantial internal or external pressure to any one of these factors will set the organisation on an uncertain path, increasing risk of failure and perhaps subjecting it to a terminal course of action.[13] Institutional theorists such as Greenwood & Hinings[14] also follow this reasoning, but with perhaps more insight into potential external influences. Their argument is that the institutional environment, with its social, cultural and business 'norms', applies an architectural 'straightjacket' to the average organization. To break from such a straightjacket is to expose the organisation to cultural isolation or 'ex-communication', again increasing the risk of mortality. This reasoning also flows into the concept of innovation *lock-in*, which will be expanded upon later in the paper.[15]

DiMaggio and Powell[16] add a further degree of complexity to traditional adaptation theories. They contend that highly structured organisations necessarily provide a context within which efforts to deal in a rational way with uncertainty lead to greater uniformity. Once organizations are structured through competitive market or state forces, there are rules by which they must abide. The most important of these is 'rationality' of decision making, a value which is created by the environment within which the organization must operate and one that inevitably encourages homogeneity as the organizational environment evolves. Importantly for this paper, DiMaggio and Powell divide this homogeneity, or what they have termed 'isomorphism', into *competitive* and *institutional* arenas. Both, however, adhere to the same inertial paradigm that follows from Hannan and Freeman's original thesis.

Theorists less sympathetic to this thesis include Brown[17] and Genschel[18], among others. Brown[19] argues that a lack of change is equally detrimental to an organization and that inertia, therefore, can and does create significant liability. Conservative action in the face of change may indeed protect the organization in the short-term, but by not implementing the change required to compete within new and changing environments exposes it to pressures it is unable to withstand. It can no longer compete in a new environment for which it is not equipped. On the flip-side, Brown[20] contends that when an organisation makes a radical and successful change, others tend to follow and over time institutionalise that change. This not only creates clear pathways for future change but helps to eliminate resistance to that change. In such cases a new ‘legitimacy’ is established.

Genschel[21] perhaps offers a more sophisticated alternative to the new institutionalism literature by disputing the parallel between ‘inertia’ and stasis. By equating inertia with ‘no change’ there is an over-simplification of the term. Instead, Genschel[22] contends that *inertia* can either represent a static state or in fact, can be the trigger for new and innovative pathways. This trigger is not an obvious reference to environmental shock, but rather, to the extension and supplementation of existing structures in a manner more profound and nuanced than simple ‘adaptation’. In fact, Genschel[23] goes so far as to claim that *inertia* is often a pre-requisite for change.

The point that institutionalists appear to have neglected is that when the correlation between environmental risk and risk aversion peaks, as the result of, and resulting in, a maximum level of inertia, this is precisely the moment when change is optimal. Their argument that inertia is an advantage in the short term through its protection of sunk costs and avoidance of transition problems may have some validity. However, as Genschel[24] states, “*The avoidance of disruptions in the near future may lock actors into developmental pathways which lead into dead ends, and thus cause disruptions in the distant future”*. More than this, for an organisation to favour inertia at a time when its industry sector may be experiencing radical change is to ensure a clash of operating paradigms. If, for example, a global industry requires a product, marketing or distribution *type* that a particular organisation can no longer deliver due to a discordance in operating environments, then that organisation will cease to be commercially relevant to the industry.

The Innovation Perspective of Inertia

Deriving from the organizational framework is the innovation-based theory of inertia. Due to what Anderson (2004) refers to as the co-evolution of technology, institutions and organizations, with institutions providing the 'background conditioning' for innovation, the emergence of inertia within this domain is almost pre-determined.[25] As industry participants follow conservative organizational pathways in order to limit various forms of risk, their structural, behavioural and innovative frameworks will necessarily imitate this conservatism. In innovation terms, this is referred to as *lock-in* or path dependency. Firms, institutions, organizations and entire industry sectors can be prone to a condition whereby previous innovation success, an institutional 'thickness' and a strict co-location of requisite infrastructure can result in isolationist tendencies. Such a condition is most apparent in mature industry clusters that have become independent of their industry sector, self-sustained and thus prone to innovation lock-in.[26] The more historically successful the cluster and the more pronounced its operational pathways, the more risk-averse its frameworks and the more likely the legacy of innovation *lock-in.* This paper will argue that such innovation lock-in at the industry level is a legacy of a dislocation between industry organizations and firm priorities and as such, presents paradigmatic shifts more complex than those operating at a simple organization or firm level.

Alternative theoretical frameworks

DiMaggio and Powell[27] state that *"… the full power of the institutional perspective has yet to be realized, due in part to ambiguities in some of the initial contributions . . . and to the fact that a somewhat stylized version of institutional theory – a restricted institutionalism – has thus far been explicated"*. It is this 'restriction' that has established relatively orthodox parameters within which alternative theories must reside and compete for legitimacy.

In order to pursue robust analysis within rapidly changing industry sectors such as the wine industry, however, we need to think outside these orthodox parameters. For example, in current institutional change literature there is little that addresses the way in which risk aversion is determined, at what stage it applies or the way its success or failure is influenced by the organisational history.

If Hannan and Freeman's[28] theory on risk aversion is applied to the Australian wine industry over the last 25 years the outcome is one of strong contradiction. This wine industry has been in existence since the 1850s and by the late twentieth century had created a considerable organisational legacy. In the late 1980s, however, stakeholders from state and federal government, research agencies, training institutes, supplier groups and the wine firms themselves came together in a bold and very much untried attempt to overhaul the industry. This they did in what has become a virtual template for New World wine industries. Funding, research, extension, marketing, distribution and international trade were largely centralised in accord with ambitious medium and long-term strategies.[29]

It was one of the most dramatic restructures in Australia's industrial history and it was a resounding success. Within a decade, the Australian wine industry had been transformed from a largely domestic cottage industry into a serious global competitor.[30] As it continued to gain market share from Old World industries such as France, Italy and Spain, so its reputation for innovation, product quality, consistency and value was confirmed. This remarkable transformation was orchestrated by a core group of individuals with a clear vision and a determination to align the industry with the rapidly changing international landscape.[31] The point to be made here is that the Australian wine industry not only overcame entrenched interests to implement radical change, but this change did not increase the chances of mortality. In fact, it did the opposite. Another critical issue was that of risk assessment. In determining the degree of risk associated with such changes, potential damage to the industry's already mediocre status was weighed against the potential benefits of locking into global pipelines of trade, technology transfer and distribution. In short, there was little to lose.

A French example

A further example of radical change within organisational and innovation domains is currently unfolding within the beleaguered French wine industry. While similar risk assessment decisions are being applied in this situation, the stakes are possibly much higher. As has been well documented, the French wine industry has been suffering over the past decade in large part due to competitive pressures from the New World. Exports have fallen dramatically, as has its market share in the USA and UK. It has been accused of being overly regulatory, overly subsidised, arrogant in its refusal to adopt New World innovation, and hostage to producer-driven demands.[32] There is truth in these accusations.

In the face of such challenges the French wine industry has, until recently, refused to acknowledge that the rise of the New World was anything more than an aberration. It remained locked into its traditional wine making practices, its disparate and largely inefficient distribution channels, its parochial interpretation of *terroir*, and its often outdated viticultural management.[33] Resistance to change has only served to reinforce the industry's relative decline. The New World had been offering exciting, consumer-driven varieties, consistency, technical quality and value while French tradition had lost its appeal to a new class of value-conscious consumer.

Since the turn of the century, however, a group of innovative winemakers in Bordeaux has successfully begun to 'invert' or roll back this inertia within both organization and innovation domains. The success of this group, known as *garagistas* (due to their small, garage style wine-making facilities), can be attributed to their artful blending of New and Old World techniques.[34] Its small but technically sophisticated facilities use the best of New World innovation while rejecting its approach of mass production and standardization. Instead, they retain the custom of Bordeaux's 'Left Bank' chateaux in limiting yields, hand harvesting, hand-sorting and optimising grape quality. As a result, the group is producing what are arguably the best wines in the world, and in so doing has reignited France's reputation for quality and through example, revolutionized French oenological and viticultural innovation.[35] Indeed, it is difficult to over-estimate the level of organizational change and innovation these *garagistas* have brought about in the Bordeaux, and in fact, the entire French wine industry.

Inertia in the Australian wine industry

In 2006 the story of inertia in the Australian wine industry is different again. The industry has experienced thirty years of evolution since the last major forms of domain inertia were apparent. In addition, the internal dynamics of the Australian industry are quite antithetical to those of the French. It is highly centralised as opposed to fragmented, it has coordinated funding of R&D, attracts no government subsidy, has distinct geographical clusters and has far fewer producers.[36]

Because of its centralisation of infrastructure and R&D it requires a somewhat unique theoretical model. While theoretical underpinning of change at the firm and institutional level have become increasingly intimate over the past decade, there is little attempt to adapt these models to the broader industry-level environment.[37] Another more subtle weakness is the lack of articulation between organizational and innovation frameworks. Instead, there is sometimes a rather crude extrapolation of existing theories that lack the subtlety and complexity required by these different paradigms.

Yet if we are to extend our understanding beyond the orthodoxy of current inertia theories we must acknowledge alternative paradigms. The data presented in this paper reflect one such paradigm, that is, the increasing dislocation of imperatives within the Australian wine industry in recent years. The dislocation has been created by diverging pathways of two distinct stakeholder groups – the wine firms and the industry-level organisations by which those firms are serviced. After the radical changes brought about in the late 1980s, the industry emerged as a unified entity with closely interwoven relationships and most importantly, common goals. This paper will argue, however, that the situation has since devolved into a multi-goal environment of mixed and often conflicting priorities.[38]

Understanding a changing global landscape

Since 2000, the industry's landscape has been subjected to seismic shifts – global shifts in demand, supply, ownership, distribution, markets, price points and product style. Such shifts have created both strategic and operational pressures. They have also brought about a restructuring of the wine landscape in response to these pressures, in turn creating multiple nexi of local production with global pipelines of distribution and technology transfer.

Another dimension of the new landscape is the substantial rationalisation now taking place in the industry. In the Australian wine scene, as is the case internationally, mergers and acquisitions among and by the larger firms have created a truly global culture. For example, approximately 55% of Australian wine sales flow back to foreign interests. Two of Australia's four largest wine firms export their profits to headquarters located outside Australia.[39] In turn, the larger of the country's wine firms have substantial interests in other New and Old world wine industries. Such global ownership suggests that traditional national boundaries and approaches are rather limited. Furthermore, as wine consumers become more educated, the demand for products with a history and a story to tell - wines that differentiate themselves by *terroir*, style and heritage - have reinforced the trend toward local/regional identities, again invalidating the national approach.

A new theory for a new paradigm

This is where a distinction between the two sets of industry stakeholders becomes apparent. Industry organisations such as the GWRDC, the AWBC and the WFA have built their entire platform on the 1995 '2025 vision'. This original article of policy and operation was focused on growing Australia's exports in quantity and quality through national extension of research and development and a nationally branded product. It was implemented in a period of embryonic internationalisation for the industry and has become a mandate for these organisations. Their vision and ability to react to changing environments is governed by a mantle of generic, national priorities. As such, they continue to service the entire industry from a common set of resources for a common purpose – that of 'Brand Australia'.

The extent to which these organisations fulfil their objectives is not in question. In fact they consistently achieve or surpass their own benchmarks. What *is* in question are the *objectives* themselves. While an eleven year-old, 'pre-fabricated' mandate provides rigid parameters within which the industry organisations operate, the firms which they service (the other stakeholders) are responding to altogether different mandates. These are contemporary and are determined by consumer demand, higher price points, flexible distribution channels and consumer pressure for regional differentiation. In short, Australian wine firms are increasingly operating within the rules of a fundamentally different paradigm. They are exposed to the pressures of international price competition, are under pressure to build sustainable and identifiable brands within a fickle marketplace, and must retain a technological edge over both New and Old World rivals. A non-adaptive, one-size-fits-all approach, therefore, is rapidly losing value. It is these two mismatched paradigms of operation that are creating industry level inertia in both organisational and innovation domains.[40]

Unlike models of inertia within the more orthodox literature, *this* model cannot be neatly ascribed to an individual entity or even group of entities. Rather, it is an industry-level model which represents a conceptual and operational void between discordant imperatives. Industry organisations *are* adapting and even changing in response to perceived challenges at a national level. As mentioned, they are often exceeding their own operational benchmarks in this response. The wine firms are also adapting and changing in response to their multi-faceted challenges, but these challenges are occurring across a landscape that no longer follows the contours of that already mapped out by the organisations. Instead it is a landscape where global requirements dock directly within regional ports.

One telling example of such difference is obvious in the current debate over the industry's marketing campaign. In 2005 the industry organisations, led by the WFA, the Australian Wine Export Council (AWEC) and the AWBC implemented a 'new' marketing campaign for Australian wine.[41] The initiative emerged as a result of increased global pressures on price-points, consolidating distribution channels and a educated consumer, looking for something more than a consistent, pleasant, but ultimately bland and blended product. As data will show, from the firms' perspective the response was disappointing. Retaining the 'national' agenda, the industry organisations repackaged their 1995 campaign. Under the 11 year-old marketing label of ‘Brand Australia’, international consumers were now told to “Open their Mind to Australian Wine’. This apparent nuance was intended to reflect the increasing diversity of Australia’s wine brands. According to the wine firms themselves (current survey), however, it has done little to reflect the push into higher price points by boutique and small wineries, the regional focus of single vineyard or estate wines or the trend towards non-blended heritage wines.

The campaign’s primary target remains the popular-premium price points in the UK and US markets. Unlike other leading wine industries, there is little if any acknowledgment of the ‘reputation-making’ wines distributed in the ultra-premium and icon market points.[42] There is no individual promotion of world-class regions that dot each of Australia’s winemaking states. There are no ‘stories’ being told, no heritage being created and hence, no rivals for the famous châteaux of Bordeaux.[43] The emergent and unprecedented needs of Australia’s wine firms in making the conceptual ‘leap’ to fine wine production is being met with an industry response that depends upon enshrined precedents. The void between expectations and ‘solutions’ is instilling a form of inertia that transcends traditional organisational and innovation boundaries.

The findings from the current study will follow.

Method

This study has been based on findings from a number of the author’s previous studies. In this context, it was designed to examine the relationship between wine firm priorities and those of the industry organisations in terms of product branding, regionalisation and R&D extension. The hypothesis underpinning this examination argues that there is a growing discord between such priorities. It is one which relates directly to stakeholder mandates and it is creating a new form of inertia at the industry level. There has been an attempt in the article, therefore, to adapt current theoretical frameworks within organisational change literature to reflect more accurately the conceptual and structural inertia at an industry rather than organisational level.

The current study was divided into two main sections. The first section dealt with issues of regional branding, its importance to firm operations, support from industry organisations, and the correlation between regionalisation and product differentiation. The second section focused on the industry's R&D extension (innovation) and the degree to which it supports regionalisation. As part of this, the role and effectiveness of the GWRDC, the AWRI and regional research nodes are all addressed by the study's user survey.

Wine firms, as the primary users of the industry's services were first surveyed. The survey sample included 165 wine SMEs. A randomised, stratified methodology was chosen for this sampling. The survey was restricted to SMEs and care was taken to ensure a similar number of firms from each of the four chosen states – New South Wales, South Australia, Western Australia and Victoria – were captured. In addition, only exporting firms were included in the study and again, care was taken to include representation from the diverse regions within each state. In each case, either the CEO or production manager was the respondent. Surveys were conducted by phone, so a high response rate of approximately 75% was achieved. In addition to the survey instrument, in-depth interviews were carried out with four of the governing industry organisations to gauge their perceptions and actions on the same issues.

Findings

The question of regional identity

The transcendent, 'industry-level' inertia embedded within this paper's theoretical foundation is demonstrated clearly throughout the findings. In particular, the regional as opposed to national struggle for brand recognition highlights the inadequacy of orthodox inertia theories in explaining what has become a unique inertial paradigm. In sharp contrast to the industry organisations' 'national wine agenda', there was overwhelming support among the 165 survey firms for a focus on regional and local identity. Overall, 91% (148) believed that this identity was either critical or very important to their marketing and operational success, as well as to their product's reputation. Despite the regional promotion rhetoric in recent media releases, it appears that the gap between firm imperatives and those of the industry organisations is growing.[44] Although 91% of firms believed strongly in the importance of regional identity, only 33% believed the industry organisations placed any importance on such identity. This feeling was of course most obvious in the geographically isolated regions of Western Australia, where only 23% of firms believed the central industry organisations were servicing their interests.

One of the main thrusts in the call for regional and local identity is the pressure to create a point-of-difference in product and marketing – a major firm imperative. As indicated previously, global distributors and consumers are becoming more sophisticated in looking beyond the Australian guarantee of consistency and value for money. There is pressure to produce and market wines with individual stories, heritage and a legitimate claim on *terroir.* In terms of sustainability it is also critical for the Australian industry to discard its reputation for bland 'industrial' wine by targeting higher price points with low-yield, high-quality products that are individually crafted.[45] This 'point-of-difference' in product and marketing is antithetical to the generic 'Brand Australia' approach being adhered to by the industry organisations. Yet the wine firms themselves see the differentiation as critical to their future. Of the 164 firms responding to this question, 87% claimed that such differentiation was integral to their sustained competitiveness. They also believed it was integral to the industry's sustainability and further, that it was inextricably linked to regional and local identity.

Branding

The issue was further pursued with specific questions about firm views on 'Brand Australia' and its appropriateness as a global marketing vehicle. Responses only served to reinforce the mismatch between the national agenda and regional imperatives. Of the firms responding to these questions 73% disagreed with the campaign, claiming that it was dated, was too generic, and that it even undermined their ability to leverage their own brands. They argued that it failed to address and respond to a rapidly changing landscape of consumer sentiment and escalating distribution points. Lockshin[46] puts it bluntly in stating that there is "…no established policy to develop a regional or terroir-based promotion for Australia, especially as compared to competitors". This failure tended to lock Australian wine into a pre-determined product category with which many producers were becoming increasingly uncomfortable.

Instead, through the survey and other fora, firms have been consistently calling for an extension of 'Brand Australia' to incorporate region-specific branding. They are not advocating the dismantling of 'Brand Australia', but rather, suggesting that it be adapted to incorporate the unique characteristics, *terroirs* and products of Australia's more notable regions. They argue that it is about building regional recognition and reputation as part of the Australian advantage. Only this way can the industry build brands at the higher price points to compete with the chateaux of Bordeaux as well as the famous estates of Napa, Sonoma and New Zealand's Marlborough region.[47] As James Halliday succinctly put it, "Australia, unlike France, is limited by the lack of well-known Australian regions".[48] Kym Anderson[49] reinforces this sentiment when he states that "…regional branding will add to Brand Australia as an additional and more specific means of ... promotion".

Extension of R&D versus Innovation Lock-in

Firms within the survey claim that the *national* campaign in its current format also has wider implications. Primary among these is the industry's extension of research and development (R&D). Mandated under the articles of the GWRDC, the industry's R&D is formulated along generic, national guidelines and extended in the same manner. These guidelines are dictated by the most common need, the ability to undertake the research and greatest return in outcomes.[50] In short, it runs parallel with the industry's generic marketing strategy, and in fact, serves to underline it. The focus is primarily on national viticultural and oenological management in the pursuit of a product that is disease free, is of consistent quality, is technically good, is blended from multiple regions, represents value for money, is fruit-driven and of instant, age-free appeal. Such a product fits comfortably within the popular-premium price points that Australia currently dominates and, according to the industry bodies, represents the best return financially (although much of that money is returned to overseas interests).

It does, however, return little in the way of reputation for fine, high quality wine. The perception of surveyed firms within this and other studies is that such generic R&D, which utilises the vast majority of industry resources, actually creates a climate of innovation lock-in, whereby R&D is limited by the cultural environment. This establishes barriers to new, innovative R&D pathways and serves to undermine the tenet of differentiation.[51] They believe that in order to create differentiated products, differentiated R&D is essential. Again, there is an increasing gap in innovation objectives between the industry's organisations and the firms which they service. Whether it be canopy management, disease control, soil analysis, irrigation, pest management or rootstock development, firms argue that these are region-specific problems requiring region-specific solutions. Instead, 'solutions' tend to be dictated from Adelaide (GWRDC Headquarters) in a pre-fabricated format that often fails to address individual concerns but *does* reflect classical lock-in characteristics.[52] Extension tends to be sporadic and incomplete, with a severe shortage of trained field officers or adequate programs. As a result, firm participation is low and often concentrated among the larger operators.

Despite the fact that appropriate R&D extension is viewed by operators as a pre-requisite to the creation of regionally branded networks and as an indicator of the industry's research breadth, only 21% believed that the industry organisations were serious about it. As one firm CEO stated, "There needs to be more industry consultation prior to setting agendas, from everyone, not just the big boys". This sentiment is reinforced by innovation theorists such as Boschma[53], who argues that there is substantial risk of institutional lock-in when policy reflects the interests of the dominant players rather than an open system where strategic policy is directed by new players and economic renewal. It appears that the sentiment was also fairly uniform among firms, with widespread calls for decentralisation. Currently, the AWRI, which conducts the vast majority of the industry's research, is based wholly in Adelaide, at the heart of the South Australian wine cluster. This centralisation of research of course underscores the generic, one-size-fits-all approach and perpetuates the discordant imperatives between organisations and firms. It also fits neatly within Lee *et al.*'s[54] 'exploitation' model, where the orthodox technological framework is retained at the expense of a possibly more compatible, but exploratory one.

A large majority of firms (70% of those surveyed) suggest that a more appropriate research structure would be one in which the AWRI hub remained at Adelaide in the dominant wine cluster, but with appropriately funded and resourced 'nodes' within each of the country's other major wine regions. Such a structure would allow firms in individual regions or clusters to tap into their respective node. Research within each node would be region-specific. This would also underline that region's marketing and distribution campaign and thereby *extend* the national agenda to create a more differentiated environment. It would also disrupt the current path dependency of nationally-oriented innovation networks. In fact, 76% of the surveyed firms believe participation in these 'regional clusters' was critical to their competitive advantage. As well as differentiation, there would be representation. It would be expected that regional nodes would enhance the participation in decision making throughout the industry, as greater interaction would encourage access and opportunity among the industry's smaller firms. This would create a sharp contrast to the current centralised structure where 90% of boutique, small and medium firms in the survey believe that they are disenfranchised from the decision making process.

Policy paralysis

Representatives from industry organisations were also asked to comment on this 'research node' model. Their reactions were mixed. Two of the four representatives were in favour of the model, agreeing that it would be more efficient in the extension of research and would help underpin the international move towards regional promotion. One pointed out that this model was already evolving in Chile and Argentina and had become established in New Zealand. Both, however, admitted that their organisations would be unable to pursue such a model. For the first, it lay outside the organisation's terms of reference and in the case of the second, its mandate prohibited such decentralisation.

The other two representatives argued against the model, relying on the historical success with a generic approach to support their argument. They claimed, correctly, that the national model of R&D extension that had supported the industry for the past twenty-five years had become a benchmark among most New World industries. Their generic model supported the popular premium price-points where the majority of business remained for Australia. This is also true, but as was pointed out to the two representatives, the majority of business is also conducted by the four largest wine firms, two of which are owned by overseas interests. Therefore, the Australian industry is actually getting a poor return on its investment in this sector.

But there is a far more important issue to be considered. Supporting regional R&D extension is about supporting many operators who sell into the higher super-premium and icon price points. While these price points represent a far smaller percentage of the overall market, it is the sector, as Brian Croser[55] argues, in which reputations are made. It is a reputation which serves not only the individual firm or even the region, but the entire industry.[56] Industries that dominate these price points are recognised as producing high-quality, 'luxury' brands.[57] (Brook, 2000).

A perfect example of this 'reputation-making' strategy is France's Bordeaux. This region is known internationally as producing the world's finest wine. While many consumers buy Australian, Californian or South African wine for daily occasions, these same consumers will usually turn to a Bordeaux wine when something special is to be celebrated. The irony is that of Bordeaux's 20,000 producers, less than 60 are AOC classified and produce wines in the super-premium or icon price points. The other 19,940 producers create often mediocre products that sell in the popular-premium and bulk wine price points (ie between $2-$14 per litre). It is these 60 producers, however, that have given Bordeaux and France their fine wine reputations.[58] Yet convincing our industry organisations of the merit in the strategy remains difficult.[59] Their simple response when confronted with this argument was that their organisations were mandated to continue with the current model and although there were alternatives, they would not be considered at this stage.

Concluding Remarks

Of course these mandates also tend to create their own legacies. Once rigid parameters are established and legislated the 'isomorphism' of DiMaggio and Powel[60] becomes apparent. At the industry level, however, with multiple stakeholders responding to discordant organisational and technological pressures, the resulting domain inertia is more pervasive and the paralysis more extensive. There is a distinctive 'sanctity' applied to each group's position. For example, firms within the survey are quite obviously committed to the concept of a changing paradigm, where production, distribution, marketing and the underlying R&D are driven at the regional level to align more effectively with fluctuating global pressures. Commercial imperatives have created a particular domain within which these firms must operate to survive and prosper. To discard such a strategy would be to lose any competitive advantage.

These imperatives, however, have not proved transferable to the industry's other major stakeholders – the organisations that service these firms. Although part of the same industry, these organisations operate within a conceptually different landscape, adhering to different cultural norms, with different benchmarks and different goals. The firms are focused on recognition and return for themselves and their region. The organisations are focused on recognition and return for the entire national industry. As a result, expectations by one group are not satisfied by delivery from the other. It is the *void* between this expectation and delivery within the industry sector that requires a domain-level approach to change and inertia. Only through such an approach will the complexities of a multi-goal landscape and the flux of its shifting paradigms be fully captured.

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