

**COOPERATIVE FERMENTATION: FORMAL COOPERATION,  
BUSINESS INTEREST ASSOCIATIONS, AND THE OKANAGAN  
WINE INDUSTRY**

by

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# APPROVAL

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## ABSTRACT

The Okanagan wine industry has undergone massive restructuring and a rapid expansion since the Canada/US Free Trade Agreement (FTA) of 1989 and now comprises a rapidly expanding cluster of approximately fifty-three wineries, the majority of which are less than a decade old. This thesis examines the role of the British Columbia Wine Institute (BCWI), the Association of British Columbia Winegrowers (ABCW), the Okanagan Wine Festivals Society (OWFS), and the British Columbia Estate Winery Association (BCEWA) in facilitating this restructuring. Conceptually, the thesis focuses on the role of Business Industry Associations (BIAs) in local industrial development by fostering cooperation among firms. Although BIAs are often considered to be important for local industrial development they have not been systematically analyzed in the economic geography literature. To help redress this neglect, in this thesis BIAs are characterized in terms of a *logic of exchange* model that in turn comprises the *logics of membership* and *influence*. Empirically, the analysis draws primarily on personal interviews with 53 respondents representing wine growers and the associations based in the Okanagan Valley region of British Columbia.

The analysis reveals that for the initial years following its incorporation the BCWI performed effectively as a BIA, most notably by enabling the industry to thrive and expand in the new free trade environment. Specifically, the BCWI created a number of marketing advantages for member firms, which increased profitability and lent both credence and respectability to member firms and their products. However, as the industry grew and became more heterogeneous, the BCWI became less representative of all its members, and small firms in particular complained that they had lost influence over the direction and actions of the association. Consequently the BCWI fragmented, and some small firms left the BCWI to create an alternative, albeit less well-funded BIA. The fragmentation and continued survival of the BCWI, along with the entry of new BIAs, suggests both the importance and limits of multi-lateral firm cooperation.

## **DEDICATION**

This thesis is dedicated first and foremost to my parents. Without your support this could never have been possible, thank you. Of course, this little dedication would never be complete unless I also expressed gratitude to Brett “Nav” Kingsbury, all the great folks at Glen Valley Organic Farm in Mt. Lehman, B.C., and Heeramatee Devi “little chicken” Samachetty.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

ABCGG- Association of British Columbia Grape Growers

ABCW- Association of British Columbia Winegrowers

BCEWA- British Columbia Estate Winery Association

BCLCB- British Columbia Liquor Control and Licensing Board

BCLDB- British Columbia Liquor Distribution Board

BCMAFF- British Columbia Ministry of Agriculture Food and Fisheries

BCWI- British Columbia Wine Institute

BIA- Business Interest Association

CVA- Canadian Vintners Alliance

CWI- Canadian Wine Institute

FTA- Canada/US Free Trade Agreement

GATT- General Agreements on Tariffs and Trade

GWSAAP- Grape and Wine Sector Adjustment Assistant Program

OCCP- Okanagan Cultural Corridor Project

OWFS- Okanagan Wine Festivals Society

PARC- Pacific Agriculture Research Centre

SME- Small and Medium-sized Enterprise

TOTA- Thompson Okanagan Tourism Association

VQA- Vintners Quality Alliance

# CHAPTER ONE

## INTRODUCTION

The Okanagan Valley of British Columbia is an evolving, dynamic region. Located from Osoyoos near the border with the United States to just North of Salmon Arm, the Okanagan is at the northern end of the North American temperate wine-growing belt. Within the region there is a rapidly expanding cluster of approximately fifty-three wineries, the majority of which are less than a decade old. Indeed, the Okanagan wine industry has undergone massive restructuring and a rapid expansion since the General Agreements on Tariffs and Trade (GATT) ruling of 1987 and the Canada/US Free Trade Agreement (FTA) of 1989. The firms in the industry, mainly comprised of vertically integrated small and medium sized enterprises (SMEs), produce an array of quality wines from locally grown grapes and generate both direct and indirect economic benefits to the region. Firms within the industry formally cooperate through and are represented by 'business interest associations' (BIAs), namely the British Columbia Wine Institute, the British Columbia Estate Winery Association, the Association of British Columbia Winegrowers, and the Okanagan Wine Festivals Society. This thesis addresses the role of BIAs in the evolution of the industry since the GATT ruling and the FTA, as well as the role of formal cooperation in facilitating local industrial development.

### ***1.1 The Industry prior to the FTA***

Commercial grape growing and vinification as an industry is not new to the Okanagan. The first planting of grapes of any kind was by Father Charles Pandosi in the 1860s, whose religious mission produced wines for sacramental and personal use (Schreiner, 1996; 2000). Commercial vinification in the Okanagan dates back to the establishment of the first wineries in 1932. Most of the grapes used in early wine production were either the locally grown *Vitis labrusca* or were imported from elsewhere, usually California. This early production can be characterized as low quality fortified "jug" wines or dessert wines, and was sold to the domestic market (Vielvoeye, 1980). In general, this production was dictated not only by the poor quality of the grapes, but by local consumers, who expected strong, sweet wines (Schreiner, 2000; Medium-sized winery respondent).

The industry changed little until the late 1950s, when grape growers began to replace *Vitis labrusca* grapes with French hybrids. From these hybrids, wine manufacturers began producing a variety of generic, lightly carbonated “pop wines” and “Baby Duck” style champagnes (Carew, 1998). Although the end product changed, the overall result was the same. The industry continued to use low-quality hybrid grapes to make “*unsophisticated wines for an unsophisticated public*” (Schreiner, 1986, 30; Rowe, 1970).

As the wine industry developed throughout the 1960s, 70s and early 80s, manufacturers took advantage of provincial legislation that effectively insulated Okanagan wine from external competitive pressures. Through the British Columbia Liquor Distribution Branch (BCLDB),<sup>1</sup> the provincial government controlled and regulated wine listings, prices, retail outlets and, with the addition of high tariffs on imported wine, created an effective entry barrier for foreign manufactured wine (Adams, 1992; Ross, 1995). The BCLDB also protected the wine manufacturers from outside competition in a number of ways. Only local wine could be sold in unique or non-standard bottles and, in addition to a \$0.20 federal import tariff on bottled table wines in 1972, the provincial government mark-up on local wine was 35%, 45% on wine from other provinces, and 55% on imported wine. By 1989, these mark-ups were 55% on Canadian (non-B.C.) produced wine, and 117% on imported ones (Ross, 1995).

In efforts to promote the development of the grape industry, the members of the Liquor Control and Licensing Board of British Columbia (BCLCB) required wineries to increase the content of locally grown grapes as a condition of licensing. To encourage the planting of new vineyards, the BCLCB increased the required quota of locally produced grapes from 25% to 50% by 1962, and then to 65% by 1965. Within four years of the BCLCB’s new policy, grape acreage had increased 400% within British Columbia (Adams, 1992; Aspler, 1999). By 1967, the locally grown grape content of

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<sup>1</sup> These provincial liquor administration bodies were often renamed, re-mandated, and relocated depending on the political whims of those in office at that time. The Liquor Control Branch, established in 1921, was renamed the Liquor Administration Branch in the early 1970’s. This body resumed the responsibility for the retailing of alcoholic beverages. The LAB was subsequently divided into two separate bodies in 1975. Since this time, the Liquor Distribution Board has been responsible for the retailing and distribution of all liquor sales. The majority of its sales are through its own retail outlets, with the remainder through licensed restaurants and private beer and wine stores. The Liquor Control and Licensing Board, on the other hand, organizes licensing practices (Schreiner, 1996).

domestically produced wines had been raised to 81% (Nichol, 1983). In effect, BCLCB legislation forced Okanagan wineries to either vertically integrate by acquiring their own vineyards and/or extend their contracted acreage with local grape growers.

Such a high local content requirement, although advantageous to local grape growers, restrained wine manufacturers from using higher quality American grape sources, and left them disadvantaged in being dependent solely on the Okanagan harvest (Adams, 1992). In response to pressure from within the wine industry, the provincial government passed the '80/20 ruling' in 1968, thereby setting the content of the grapes required in wine manufacturing to be at least 80% British Columbian grown.<sup>2</sup> The '80/20 ruling' meant that the importation of grapes, bulk juice, and concentrate from outside the province became conditional upon the wineries' purchase of the entire domestic grape crop (Adams, 1992). This piece of legislation had far reaching impacts on both the grape growers and wine manufacturers for years to come as it created a derived demand for domestic grapes, and left wine quality contingent on locally grown, low quality grapes (Ross, 1995). As grape growers were assured a non-competitive market, there was also little incentive for them to plant the higher quality grapes needed to manufacture premium wines.

In 1961, the fresh market and winery grape growers formed the Association of British Columbia Grape Growers (ABCGG) with the objective of promoting the interests of grape growers within British Columbia. In order to better market their products and sell their crop at prices they considered equitable, this association later established a marketing board in 1973 (B.C. Ministry of Agriculture, 1980; Swales, 1980). The Grape Marketing Board possessed various powers to promote, control, and regulate the grape industry, as well as to negotiate with wineries and government for programs, policies, prices, and standards for the grapes delivered to wineries in British Columbia (B.C. Ministry of Agriculture, 1980).

The marketing board gave the grape growers immense market power, which was indirectly but distinctly reinforced by the '80/20 ruling'. As the '80/20 ruling' required wineries to buy locally grown grapes, they were in an inauspicious position in

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<sup>2</sup> Following a poor Okanagan grape harvest in 1969 however, 80% became the goal rather than the requirement (Adams, 1992).



negotiations with grape growers. As any attempt by a winery to withdraw from this 'forced' contract position was met with government threats to revoke the winery's license, the Grape Marketing Board was able to dictate prices (Ross, 1995). In providing the industry with a degree of stability, the Grape Marketing Board was basically a price setting board.

Prior to 1989, the provincial policy of British Columbia effectively insulated British Columbian wine from outside competitive pressures. The government controlled and regulated wine listings, prices, retail outlets, and with the addition of high tariffs on imported wine, created an effective entry barrier for foreign manufactured wine. Given very high levels of taxation on wine manufacturers, and the inflated cost structures resulting from the '80/20 ruling' and the pricing power of the Grape Marketing Board, the Okanagan wine industry was, in effect, a non-competitive, heavily subsidized industry, which due to its high costs of production, would have been unable to compete in a freer market (Ross, 1995).

In the late 1980s, foreign trading partners (particularly the European Community) argued that biased pricing, listing, and distribution practices unfairly impeded their access to Canadian markets, and thereby launched a formal complaint against the provincial liquor boards with the GATT, the international body that handles trade disputes. A 1987 GATT panel agreed with the EC, and found that by unfairly marking up the prices of European wines, liquor distribution boards undertook biased practices inconsistent with Canada's international trading practices. The Canadian government was given a year to respond, and the provinces became responsible for adjustments to the pricing, listing, and distribution of wine (Vielvoye, 1991; Ross, 1995).

Soon after the GATT ruling, in 1989, Canada signed the Canada/US Free Trade Agreement (FTA). This historic agreement changed the Okanagan wine industry by affecting the existing structure of the BCLDB and BCLCB. In terms of the wine industry's sales policies, many of the changes required by the FTA were similar to those required by the GATT ruling. In effect, the combination of the GATT ruling and the FTA eliminated all discriminating trade practices of the BCLDB and BCLCB, and forced Okanagan wine manufacturers to compete on equal terms with foreign competitors (Ross, 1995; Lipsey and York, 1988).

Since 1989 the industry has not only survived, but also prospered by adapting and evolving in a variety of ways. New markets, products, sources of knowledge, aims, and viti- and vinicultural competence have been developed, resulting in an expansion in the geographical size of, the overall production of, and number of firms within the industry. The industry has been reinvented as a producer of premium *Vitis vinifera* wines. If the number of new firms a local area generates can be used to determine its health, the Okanagan wine cluster is thriving. This thesis hypothesizes that formal cooperation between firms and BIAs has played a critical role in this rebuilding and expansion of the industry, and in doing so contributed to the local industrial development of the region.

In recent years, economic geography has given increasing attention to the role of cooperation in local industrial development. In this literature, business interest associations are implicitly or explicitly understood as important. This understanding, however, is rarely based on a systematic investigation of BIAs. Rather, BIAs are typically treated as marginal secondary units of investigation adjunct to studies that focus on different units of investigation and processes. Thus, a gap in the literature exists in research on the role of BIAs in local industrial development. As Patchell (1996, 482) states, a research challenge is to understand how new industrial forms of economic agglomeration are initiated and why successful agglomerations prosper. The rigorous examination of formal co-operation among local populations of producers then, provides one approach to this understanding. To provide such an analysis, for its conceptual framework this thesis draws on Schmitter and Streeck (1981), who examined BIAs according to interrelated voluntary or mutually advantageous exchange relations between the BIA, its domain, and the government, codified as the *logic of membership* and the *logic of influence*. These logics are elaborated as a way of understanding the role of BIAs in facilitating local industrial development within the Okanagan Valley region.

## **1.2 Research Questions and Objectives**

This thesis broadly asks:

***What is the role of business interest associations in facilitating cooperation in the process of local industrial development?***

More specifically,

***What is the role of formal collective action as represented by business interest associations in the development of the post-GATT/FTA Okanagan wine industry?***

These main research questions are further subdivided into three secondary questions with respect to the Okanagan:

*What is the role of BIAs in industry marketing?*

*What is the role of BIAs in the diffusion of knowledge?*

*What is the role of BIAs in industry representation?*

## **1.3 Research Design**

This thesis relies on primary and secondary data sources. In particular, the bulk of the primary data collected is taken from interviews with 53 respondents conducted over a period of five weeks during the summer of 2003. Secondary data sources were primarily archival.

The first method of investigation used in collecting the research data for this thesis was archival, and used primarily as a means of assimilating background knowledge prior to conducting the interviews. I began my research by learning how, under what conditions, and what varieties of grapes are grown for production. I then examined the various processes by which those grapes are manufactured into wine, and what qualities are generally associated with a "quality" wine (see Joseph and Rand, 2000). Next, I explored the culture and geography of wine, including its regions of production throughout the world, its uniqueness as an agro-industrial product, and the ever-fluctuating rotation of supply and demand of its global market (see De Blij, 1983;

Wilson 1998; Hugh and Johnson, 2001). With this introductory framework, I then began a thorough examination of the history and development of wine production in the Okanagan Valley region. This consisted of reading texts, BIA annual reports, web sites of firms and associations, and tourist guides to gather as much previously published data on the industry and its firms as possible (particularly useful were Schreiner, 1984; 1986; 1996; 2000; Aspler, 1999). With this more accessible background data compiled, I was better prepared to undertake the interview phase of my research. It is important to note that although published materials on the wine industry occasionally include data from the other wine producing regions of British Columbia, data tabulated in the tables and figures of this thesis, unless otherwise noted, refers exclusively to the firms and industry of the Okanagan Valley region (see Figure 1-1).

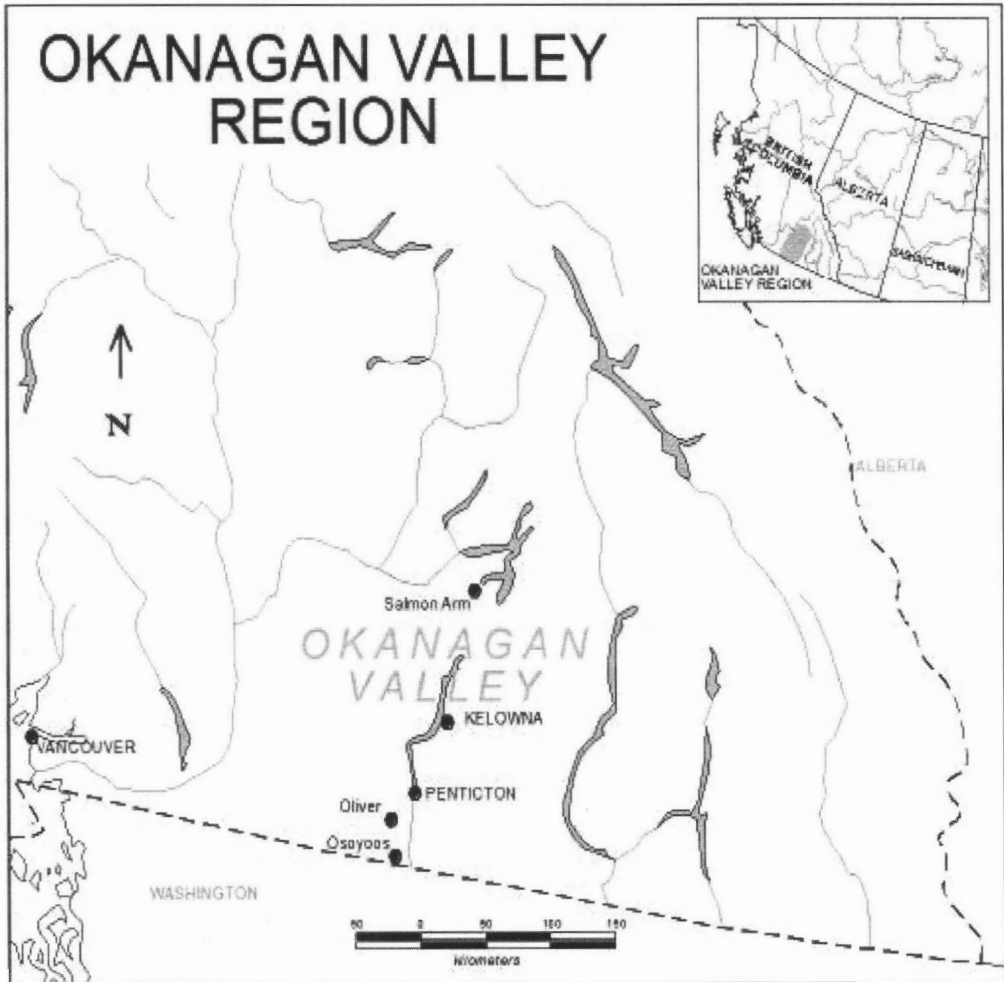
The second phase of my research comprised face-to-face, in-depth, semi-structured interviews. Interviews were used as a method of collecting data for three main reasons: to fill a gap in knowledge which other methods were unable to bridge; to investigate complex behaviours and motivations; and to collect a diversity of opinion and experience (Dunn, 2000). The interview method additionally allowed for *“the recognition that firms are institutional agents embedded in a complex network of often entangled internal and external relationships”* (Schoenberger, 1991, 181), and as such provided a useful tool for both conceptualizing and comprehending that network. Throughout this thesis, conclusions are drawn from observations, with the aid of interpretation. To ensure a diverse range of perspectives, and in doing so contribute to the accuracy of those conclusions, I gathered opinions qualitatively from three sets of sources<sup>3</sup>, from firms (both member and non-member), from the associations, and from a “historical” respondent. As there were only 53 firms and four associations in my study area at the

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<sup>3</sup> Although I use these categories to help distinguish the types of interviews conducted during the course of my research, it is somewhat misleading to suggest that all interviews can be classified solely as a “firm” interview or an “association” interview. Examples of such anomalies include: some respondents took part in and have detailed knowledge of past activities of an association of which they no longer belong; some respondents are highly involved members of an association (yet have never been or are no longer part of the formal leadership) and also represent firms in the industry; and some respondents are firm owners who also serve (-ed) on association committees and/or in other positions of leadership. On occasions such as these, the interview schedules were tailored to the knowledge and time available of the particular respondent. As such, these interviews spanned beyond the typically singular “firm” or “association” interview boundaries described here and represented by the sample interview schedules attached as appendixes A and B.

time of research, I endeavoured to gather data from the entire population of firms and associations.

**Figure 1-1: Map of the Okanagan Valley Region of British Columbia**



**Source:** Reprinted by permission of Christopher Bone, 2004

The interview schedule for firms<sup>4</sup> was composed to pursue three key areas of inquiry. Questions were formulated to determine how associations affect the marketing strategies of firms, how associations affect R&D and learning within the region, and to what degree associations represent the industry to the government. The interview schedule also included questions to determine if the aims of the association and those of the firms coincide; firms' impressions of the associations; the degree of involvement by firms in the activities of the association; firms' reasons for joining an association(s); the performance of BIA policy and initiatives; and the value of or output cost of the association to firms. In addition, the interview schedule of firms was designed to determine their rationality for not joining a particular association, and what structural or policy changes they would like implemented (if any) as a prerequisite to (re-) joining a particular association.

The interviews conducted with firms were semi-structured, and employed an interview schedule. These interview schedules were comprised of content focused questions dealing with the issues or areas judged to be relevant to the overall set of research questions. As Dunn (2000), Neuman (1994), and Dooley (1995) point out, this approach allowed the interview to follow some degree of predetermined order while advantageously providing a degree of flexibility in guiding the conversation and probing deeper into relevant areas of discussion as needed.

The questions that comprised my interview schedule can be divided into two general categories. The first of these were primary questions, and used to initiate discussion on a new theme or topic. These primary questions were followed with secondary questions, which are designed to encourage the informant to expound on issues already introduced.

In attempts to maintain a good rapport with the respondent, my interview questions were ordered along a 'funneling' structure. In a 'funneling' structure,

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<sup>4</sup> As a firm could be a member of one association and not another, I defined non-member firms as those having no formal ties with a particular association. In addition, I interviewed a small number of firms with no formal ties to any association. These divisions are useful not only in understanding the framework used in the development of the initial interview schedules, but also provide a necessary point of departure. As expected, BIAs in the Okanagan wine industry experienced a range of turnover problems, leading to a diversity of firm matriculation and withdrawal routines.

questions begin with broader more general issues, such as a respondents' duties or responsibilities, thereby allowing the respondent to gain trust and confidence in the researcher and the interview process. As the interview developed, I then moved the conversation towards more personal, sensitive, or controversial issues. It should be noted that the design of the interview remained reflexive throughout the research. As the research progressed, information and experiences were integrated back into the research design. If questions or issues were discovered to be inane or offensive after the initial interview, they were rewritten or dropped from subsequent interviews.

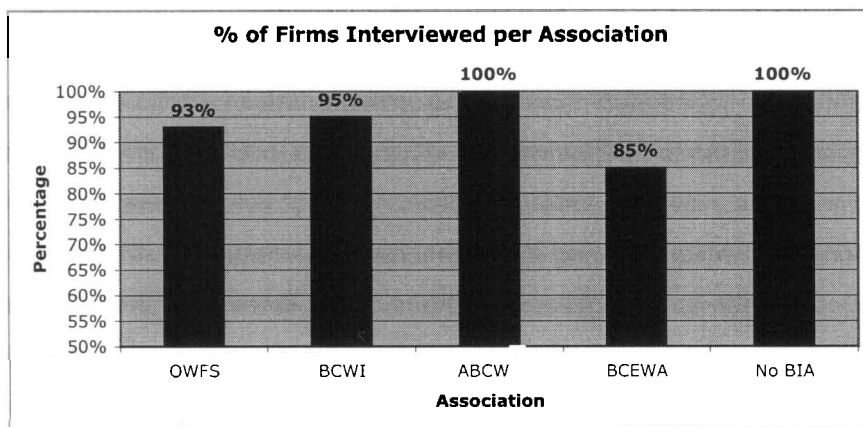
The majority of these interviews were conducted face-to-face with respondents. As Neuman (1994) points out, a face-to-face interview allows for the highest response rates and permits the longest and most probing questionnaires. In addition, face-to-face interviews also allowed me to observe the surroundings and use nonverbal communication and visual aids throughout the interview. Perhaps most importantly, and due to the highly sensitive nature of intra-industry politics within the Okanagan wine industry in recent years, conducting the interviews face-to-face allowed for the establishing of bona fides and a building of trust with the respondent that would have been unlikely in other formats.

As Healey and Rawlinson (1993) note, when interviewing business and SMEs, it is important to understand that the researcher-respondent relationship may be somewhat different than other interview settings as the researcher has to seek, negotiate, and gain access to those in power. Cochrane (1998) adds that in terms of SMEs, researchers are frequently relegated to the position of supplicant, requesting time and expertise from the powerful, with little to offer in return. Therefore, when starting an interview, every effort was made to confirm the purpose of my research and the possibilities for the use of its conclusions in the betterment of the industry. Although perhaps as a result of the tense political situation with the industry, one respondent refused to answer in anything but short, non-committal replies. Overall however, the general feeling from respondents was one of encouragement. Most poignantly as one small-sized winery respondent said, *"Your thesis will be the first time the industry has done something together in a long, long time."*

During the course of my research, interviews were conducted with 45 respondents representing over 94% of the industry within the Okanagan Valley region.

That is, 50 out of 53 firms were interviewed or represented. The remaining three firms were unwilling or unable to conduct an interview or fill out a questionnaire. It is also important to note that when a larger company owned more than one winery, obtaining extended access proved difficult, and only one respondent with decision-making powers per firm was interviewed. One interview was also conducted with a firm that was not yet conducting business with the public. For the purpose of maintaining the anonymity of this firm, and as there is only one firm within this category, statistical details and opinions of this firm have been included as if it were fully operational. Figure 1-2 shows the percentage of firms interviewed per association based on 2002 membership data.

**Figure 1-2:**



**Source:** Fieldwork, 2003

My initial approach to obtaining access to these firms was through a telephone call. I soon found however, that as Healey and Rawlinson (1993) point out, the best way of obtaining access to a SME was by simply "*knocking on the door*". In this study, this advice implied driving to the winery, and either enquiring at the wine-shop in the case of small wineries, or the administrative offices in medium to larger wineries. Usually the interview was then conducted on the spot, or an appointment was scheduled for a later date.

My first choice of respondents was the owner or general manager in the case of small firms or the president or vice-president in the case of large firms. In 96% of the cases this is with whom the interview was conducted. In three cases, my respondent



was the wine maker, or in the case of large wineries, the president or vice-president of marketing. The interviews themselves were conducted in a wide variety of locations in the Okanagan Valley region and Vancouver, including wine shops, offices, vineyards, bottling lines, restaurants, coffee houses, and sports stadiums. In the case of three firms, the respondent requested a questionnaire, which was filled out and mailed back in lieu of a face-to-face interview. As often as possible the interviews were tape-recorded to ensure accurate data collection, but due to the sensitive nature of recent internal politics within the industry, almost 15% of firms refused to be recorded. The duration of each interview with firms lasted from 15 minutes to 2 1/2 hours depending on the time available and knowledge of the respondent. On average, the interviews had a duration of 45 minutes.

Interviews with representatives of associations were based on interview schedules similar to that of firms, plus an additional set of questions to determine the structural composition, administration, and function of each association over time. The types of data solicited included: The frequency, location, and duration of association meetings; the complexity of transactions; a generalization of member firms; how benefits are diffused; the overall range and diversification of activities; the degree of overlap between association domains; the past, present, and future goals of the association; how members are recruited and retained; the degree of financing, support, and influence by the state; and the degree of integration into larger networks by the association.

During the course of my research, interviews were conducted with ten respondents representing 100% of associations in the Okanagan wine industry, namely the British Columbia Wine Institute, the Association of British Columbia Winegrowers, the British Columbia Estate Winery Association, and the Okanagan Wine Festivals Society. It is difficult to identify solely "association" interviews. However, three BCWI, three ABCW, two BCEWA, and two OWFS interviews can be identified as being uniquely "association". In addition, during the course of interviewing firms, many respondents in past positions of power described historical association processes and internal structures. It is also interesting to note that during the regular course of interviews with firms and associations, that prior members and former leaders of the now defunct Farm Gate Winery Association, Grape Marketing Board, and the Association of British Columbia Grape Growers were revealed, and their past discussed.

Initial contact with respondents was over the telephone, and similar to research conducted with firms, a semi-structured, face-to-face interview using funnelling was employed to gather data from each of the associations. The sole exception was the Okanagan Wine Festivals Society, who refused as an association to participate in a face-to-face interview. They were kind enough, however, to return an email questionnaire.

After conducting a number of interviews, it became apparent that much of the industry is “new” (i.e. either a new firm, and/or a firm under new ownership or with new staff), and many of those involved for any length of time in the industry were primarily concerned with contemporary contentious political issues rather than those of the recent past. However, an additional interview was conducted with a respondent active in the industry prior to and immediately following the FTA, but no longer a direct participant in the industry. This interview helped to provide a better understanding of the course of the industry prior to and immediately following the FTA.

### 1.3a A Note about Firm Types

In the immediate years following the signing of the FTA, the BCLCB regulated winery licenses based on production, with firms designated as major, estate, or farm wineries. This original classification is included in Table 1-1 primarily as respondents and industry-related publications occasionally refer to these classifications.

**Table 1-1: BCLCB Regulated Winery License Parameters**

<u>Winery Size</u>	<u>Production parameters (in litres bottled)</u>	<u>Origin of Grapes</u>	<u>Other Guidelines</u>
Farm	Up to 45,460	100% B.C.; 75% of which from own vineyards	None
Estate	Up to 181,840	100% B.C.; 50% of which grown on own property	All steps from crushing to bottling must be performed at the winery
Major	No limit	No restrictions	Imported juice/grapes may be labelled as “Bottled in British Columbia”

Since their legislated introduction however, these definitions have been altered numerous times, before being ultimately dissolved all together in 1998. As of 2003, all wineries operated under the same category of license. To ensure a uniform analysis throughout this thesis, the following parameters are used to distinguish between winery sizes (see Table 1-2).

**Table 1-2: Size Classifications Used throughout this Thesis**

<u>Winery Size</u>	<u>Production parameters (in litres bottled)</u>
Small	Up to 45,460
Medium	Up to 181,840
Large	No limit

It is also important to consider that firms can increase and/or decrease their production over time. For the sake of accuracy in analysis, firms have been categorized as being small, medium, or large based on the production figures of the time in question rather than on contemporary figures. If the exact production numbers for a given firm during a given year were unavailable, estimates were used. In addition, if a respondent was previously employed at a firm during a given year where no other data were available, his/her voice would be counted as being from that firm. It should also be noted that limitations on respondents' time, their ability and/or desire to answer, and the occasional unclear or irrelevant quality of their answers resulted in variances in the number of firms included in the calculations of the data in analytical tables. Also, quotes are always identified with a corresponding winery size throughout this thesis, as the analysis posits a number of relations between patterns of cooperation and firms of similar production. Lastly, as the industry expanded over time, the number of small-sized firms surpassed those firms of other sizes. As such, there are a greater number of responses from smaller firms in the analytical chapters of this thesis.

## **1.4 Thesis Structure**

Following the introduction, chapter 2 presents a review of the relevant literature. In particular this chapter examines three themes relevant to BIA derived formal cooperation, namely cooperation, *the logic of exchange*, and the development of BIAs. Structurally, chapters 2, 3, and 4 narrate the development of the BCWI and secondary

BIAs within the Okanagan Valley region as specific phases, and as such follow more of a chronological format. Specifically, chapter 3 utilises information from primary and secondary data sources to describe the milieu prior to and immediately following the FTA, the development of the BCWI from a representative to a control organization, the *logic of exchange* relationships between its membership, the BCWI, and government, and the marketing focus and Vintners Quality Alliance program of the association. Chapter 4 examines the fragmentation of the BCWI based on production size from the perspective of these *logic of exchange* relationships. Chapter 5 examines the role of BIAs in the industry since the fragmentation of industry in the late 1990s. Of particular emphasis are the devolution of BCWI from more of a control to a representative organization, the provision of BCWI selective goods, and the rise of secondary associations. In conclusion, chapter 6 provides an assessment of the key findings of this thesis and their implications for policy, and finally posits future research ideas.

## CHAPTER TWO

### COOPERATION AND LOCAL INDUSTRIAL DEVELOPMENT: THE ROLE OF BUSINESS INTEREST ASSOCIATIONS

It is increasingly recognized that cooperation is vitally important to local industrial development. In a study that assesses the importance of cooperation in local development, Patchell (drawing from Axelrod), defines cooperation as “*a voluntary relationship entered into for mutual egoistic benefit and its evolution is promoted by localization of a population*” (Patchell, 1996, 481; Axelrod, 1984). Patchell argues that one of the key questions facing economic geography is how a group of people, each possessed of their own goals, manages to get along. He helps to answer this question by basing his argument on the three “universal” human processes of cooperation, control, and competition. Rather than being inherently conflicting, he hypothesizes that by examining them as complementary, divergent perspectives on local industrial development can be unified (Patchell, 1996). The implication of his argument is that cooperation has not been given sufficient attention nor is it completely understood as to how it relates to competition and control.

In this chapter the significance of cooperation, and its relation to control and competition, is addressed. Conceptually, following Schmitter & Streeck (1981) and Van Warden (1992), formal cooperation through a Business Interest Association (BIA) is interpreted in terms of the interconnected relationships (i.e. the *logic of exchange*) between the organizational domain, the BIA, and the government. The *logic of exchange*, further semantically delineated into the *logic of membership* and the *logic of influence*, is the defining theme of this chapter.

This chapter is divided into three sections. The first section provides a brief overview of the post-Fordist literature on industrial development, with a particular emphasis placed on the body of literature concentrating on cooperation, and within this contextual framework, how BIAs and their role in the development of industry have been previously treated. The second section delineates the *logics of membership, influence, and exchange*. Section three, following Schmitter & Streeck and Van Waarden, provides

a framework for categorizing the internal structure and organizational development of BIAs, and finally dissects how those *logics* are interconnected with BIA organizational development as a system moves from a representative to a control organization. Overall, this chapter addresses an important gap in the literature of economic geography on formal cooperation by developing a framework to investigate the role of BIAs in facilitating local industrial development.

## **2.1 Agglomerations and Local Cooperation**

The related theories of the industrial district, external economies, industrial clustering, networking, and cooperation have attracted close attention in the economic geography literature on regional development in recent years. As far back as the late 19<sup>th</sup> century, Marshall identified industrial districts and the value of local industrial agglomerations in providing external economies and encouraging technical dynamism. More recently, flexible specialization and post-Fordist theories have revived interest in industrial districts, partially as an alternative to the Fordist principles of mass production dominated by large firms (see Piore and Sabel, 1984; Scott, 1988; Best, 1990). This new post-Fordist literature emphasizes a system of production characterized by flexibly specialized labour and more versatile machinery, vertical disintegration and the resulting strong subcontracting relationships between firms, just-in-time production, and tighter linkages between product development, marketing, and production. The literature has also shifted its focus of research from the single large firm, to the study of inter-firm relationships within particular places, territories, or regional systems (Asheim, 2000). The region as a unit of production, rather than the individual firm, has become the priority of study in the economic geography of production (Lorenz, 1992).

Paniccia defines 'industrial districts' as "*any agglomeration of small to medium-sized firms engaged in one or a few complementary industries in a limited area*" (Paniccia, 2002, x). Alternatively, Scott defines an industrial district as "*a localized network of producers bound together in a social division of labor, in necessary association with a local labor market*" (Scott, 1992, 266). This localized network allows firms to gain benefits internal to the district, yet external to the firms themselves (Hayter, 1997). Industrial districts are flexibly specialized, allowing them to gain the cost advantages of performing production activities in-house, rather than through transactions with external suppliers (i.e. economies of scope) (Piore and Sabel, 1984). This

collective flexibility allows for “*rapid response to highly differentiated consumer demands, highly differentiated input supplies, rapid absorption and diffusion of new technologies and market information, as well as effective use, training and redeployment of labour*” (Hayter, 1997, 330). To this, Porter (1998) further distinguishes the related concept of an industrial cluster, that is, a geographically proximate group of interconnected companies, specialized suppliers and service providers, firms in related industries, and associative institutions (e.g. BIAs) in particular fields that compete but also cooperate (<http://faculty.washington.edu/krumme/gloss>, February 20, 2004).

The post-Fordist literature also emphasizes the theme of ‘new economic spaces’. Although this idea is rarely formally defined, ‘new economic spaces’ are often associated with agglomerations of economic activity, often high-tech activities in places not previously associated with industry (Scott, 1988; Henry et al., 1996). Whether the agglomerations are old or new, explanations have emphasized the nature of inter-firm relations as learning processes, trust, relation specific skills, untraded interdependencies, and of importance to this thesis, cooperation (Hayter et al., forthcoming) (See also Cooke and Morgan, 1998; Storper, 1997; Patchell, 1993; Patchell, 1996). One common thread running through the majority of research conducted on agglomerations, industrial districts, and clusters is a focus towards secondary manufacturing regions. Examples of such studies include racing cars (Henry et al., 1996), craft based industries (Storper, 1997), textiles (Mas, 1996), vehicles, furniture, textiles, and ceramics (Best, 1990; Paniccchia, 2002), printing, tiles, and ceramics (Porter, 1990), and software (Hwang, 2002). Much of this research has additionally concentrated on direct cooperation and interaction among firms. BIAs are often mentioned, but rarely subject to systematic scrutiny.

In the literature, a bias remains towards research conducted on secondary manufacturing. Yet, networking and cooperation are not limited to areas of large and middle scale industrial agglomerations, but also shape resource industries with input characteristics related to ‘nature’. By definition, resource industries use resources and that use is inevitably affected by nature, with implications for production and flexible specialization within a region (Rees and Hayter, 1996). For example, wine industries rely on grapes, an agriculture product dependent on growing times and climate, which

constrains expedient flexible specialization to meet market demands.<sup>5</sup> If the market demand changes to a different varietal, a wine region would be unable to successfully alter its production to meet this demand in the short term.

As the opening paragraph of this chapter states, the processes of cooperation, competition, and control can be complementarily linked. Patchell (1996, 481), drawing from Wagner (1981), argues that cooperation indeed subsumes both competition and control. As such, cooperation becomes "*the process of mediating control and competition to the mutual satisfaction of both partners*". In a later study of the French wine industry, Patchell (unpublished) further distinguishes between 'hard' (i.e. direct) and 'soft' (i.e. indirect) cooperation. He defines 'hard' cooperation as represented by mutual ownership, discipline, and governance, while 'soft' cooperation is manifested in trust, culture, industry associations, and government. His own study then focuses on 'hard' cooperation as a key to explaining how SMEs can achieve a level of regional cooperation necessary to compete in a multi-national corporation (MNC) dominated global economy. Studies of 'soft' or indirect cooperation have received less attention in the literature.

## **2.1a The Role of Associations in Local Cooperation**

In a capitalist milieu, firms are driven by the desire to receive as high a price as possible for their products, and hold a fundamental interest in self-preservation. Izushi (2002) argues that these motives lead firms to seek solutions to their collective action problems cooperatively, and posits three forms this cooperation may take. First, firms can cooperate voluntarily through informal channels. Second, they can illicit formal and bilateral ties with external actors such as suppliers, buyers and the state. Finally, and of greatest importance to the theoretical framework of this thesis, they can develop channels of inter-firm communication such as joint ventures and trade associations.

In a study on identity construction through collective affiliation in the California wine industry, Benjamin found that organizations such as BIAs enhance an individual firm's legitimacy in a number of ways. Membership in a BIA can increase the public's perception of the quality of a firm's product, signal that the firm adheres to accepted

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<sup>5</sup> When a vineyard is replanted, it takes a minimum of four years for the new vines to produce a worthwhile yield (Schreiner, 1984).



norms and standards, and imply that a firm is reliable and accountable to societal expectations (Fornbrun and Shanley, 1990; Oliver, 1990; Podolny, 1993; Dimaggio and Powell, 1983; Hannan and Freeman, 1984; Benjamin, 1994). In short, Benjamin notes that these societal constructed identities lend credence to a firm and its products, and in doing so helps to reduce uncertainty for buyers and producers (White, 1981; Benjamin, 1994).

According to Hayter (1997), industrial cooperation is represented by the creation of BIAs, which provide funding, R&D, marketing, lobbying and representation, labour bargaining, and forums for discussion for members. Van Waarden (1992, 552) defines BIAs as organizations that "*undertake interest intermediation*". Bennett (1997, 1367) further adds that associations "*enhance the competitiveness of their members through specific service promotion*", and in their role as intermediaries between business and government, associations "*help to improve the effectiveness of government in its wider regulatory and institutional contribution to the economy*". From Schmitter and Streeck (1981, 45) we can add that BIAs are "*a formally structured and permanent organization, most of which have an established constitutional order, distinctive resources and budget, a hierarchy of positions, and a specified membership*".

The acknowledgement of industrial cooperation as represented by BIAs in facilitating development is well documented in the literature, and research on associations has taken a wide variety of forms. For example, Best (1990), in his study of the *Third Italy* acknowledges the importance of the role of formal cooperation and BIAs in industrial development. Best finds that the many SMEs of the region rely on a large number of cooperative institutions that serve as functional equivalents to managerial hierarchy. He argues that this behaviour allows small firms to restructure without a formal managerial hierarchy, allowing participating SMEs "*to maintain their independence in production without being reduced to subcontractors for products designed in the central office of a giant firm*" (Best, 1990, 225). He also examined the *Confederazione Nazionale dell'Artigiantanto*, the largest business association in Italy, and found that this confederation of business associations both lobbies government on behalf of its members and provides business services to member firms, particularly those services for which substantial economies of scale and scope exist (Best, 1990). Additionally, while examining the role of registered, non-profit-seeking associations of enterprises (i.e. consortia), Best found their role included institution building. Consortia

helped members to obtain bank loans by providing local banks with a non-biased insider's assessment of entrepreneurial ideas.

Numerous studies in different academic fields have examined how associations promote attributes conducive to the development of industry and industrial districts in: enhancing regional education (Izushi, 2002; Patchell, unpublished); improving product quality (Dobby, 1936; Unwin, 1991); representing industry to government (Unwin, 1991; Patchell, unpublished; Bennett, 1998; Martinez and Schneider, 2001; Sako, 1994); marketing (Best, 1990; Patchell, unpublished); facilitating institutional thickness (Amin and Thrift, 1994); supplying business advice to member SMEs (Bennett and Robson, 1999); improving quality control and resource management (Brownless, 1993); discouraging necessary agricultural despecialisation (Jones, 1989); dictating firm size (Beverland and Bretherton, 1998); the levelling of production (Patchell, unpublished); enhancing competitiveness (Bennett, 1998); and elucidating regional delineation (Dobby, 1936). This thesis contributes to the literature by drawing on other disciplines to conceptualize a framework for assessing the degree to which business interests are intermediated through a BIA, and by inference how formal cooperation impacts local industrial development. Such a framework is new to the field of economic geography.

## ***2.2 The Logic Exchange qua Membership and Influence***

As Schmitter and Streeck (1981) point out, BIAs are "*highly artifactual social institutions*", and as such, attempts to assess and/or justify their performance on purely economic terms proves difficult. As a result, and in attempts to quantify the level of BIA performance, academics have focused on organizational structure of BIAs to determine the degree to which business interests are intermediated through organizational properties (Van Waarden, 1992; Schmitter and Streeck, 1981). Both internal and external pressures, resulting in dynamic and evolving systems, affect the organizational structures of BIAs. Bennett (1998) notes that it is not simply the existence of associations that is important. Rather, it is the dynamic systems and the activities that result from them that influences "*the level of interaction and information flow between businesses, and between business and government*". These interactions lead, in turn, to the improved governance of industry, the enhanced competitiveness of the region, the potential for external economies, and finally the increase in local industrial development.

Van Waarden (1992) argues that BIAs mediate between two types of organizations: the group of businesses the association intends to organize and represent, that is, the *domain*; and secondly the *interlocutors*, such as the state and organizations of workers, suppliers, and customers. BIAs must obtain resources (e.g. membership, finance, discipline, information, etc) from firms within the *domain*, while from the *interlocutors*, associations require influence in the form of recognition, access, and concessions. Bennett (1999, 593) adds that government “*gives associations status, can help them develop their resources, and can use them as partners in policy development to the benefit of the economy through improved legislation and regulation*”. In return, BIAs provide the *domain* with access to government, selective goods, and a medium for discussion. To the *interlocutors* the BIAs offer inducements in the form of taxes, industry control, and/or regulation (Schmitter and Streeck, 1981).

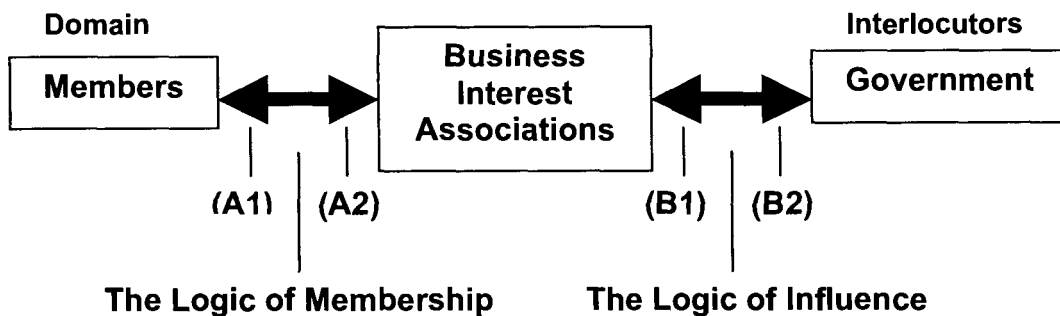
Schmitter and Streeck (1981) codify these interrelated voluntary or mutually advantageous exchange relations with both categories as the *logic of membership* and the *logic of influence*. According to Van Waarden (1992) these logics not only influence the structure of a BIA, but also are themselves influenced by the structures and activities of firms in the *domain* and the *interlocutors*. There is a *logic of exchange* between the domain, the BIA (i.e. intermediary), and the state (see Figure 2-1).

According to Van Waarden (1992), the *logic of membership* tries to explain the reasons and conditions for the formation or joining of a BIA by egoistic firms. If a member does not recognize their own particular interest in association policy, they may reject membership. This implies that firms must feel that they can influence association policy or are, at the very least, represented by the association. The *logic of membership* then additionally focuses on the role of the association in both recruiting members and retaining them. This logic stresses the representative functions of BIAs, that is their capacity to identify, communicate, and mobilize the views of their members (Van Waarden, 1992).

The second aspect of this relationship is the *logic of influence*, which focuses on relationships between BIAs and the interlocutors, namely the state, organizations of workers, suppliers, and customers. The *logic of influence* highlights control functions, that is the ability of associations to be self-disciplined and regulate member behaviour as a means to achieving credibility with partners and opponents. In addition, associations

should be able to distance themselves from the many uniquely variant member interests and, while taking into account the interests of interlocutors, mould these interests into aggregate goals (Van Waarden, 1992).

**Figure 2-1: The Logic of Exchange**



**A1. From BIAs to members- recognition, medium for discussion, access to government, benefits (e.g. selective goods)**

**A2. From members to BIAs- finance, discipline, information, time (Members also help to define the goals and interests of the association, from which the internal structure of a BIA is partially derived)**

**B1. From government to BIAs- recognition, finance, access, concessions, and the power to control, and/or regulate industry**

**B2. From BIAs to government- taxes, actual industry control and/or regulation**

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**Source:** Based on Schmitter and Streeck, 1981.

Such forms of exchange could, in lieu of a BIA, occur directly between members and the state. An association, argues Van Waarden, must therefore persuade both parties of its indispensability as an intermediary to acquire a representational monopoly between the *domain* and the *interlocutors*. This, he believes, can only be done if the association “*aggregates, transforms and processes the resources, procured in the one environment, i.e. adds value to them, before it deploys them in another environment*” (Van Waarden, 1992, 523). This process makes certain demands on and ultimately moulds the organizational structure and activities of the association.

According to Bennett (1999, 595), “the role of associations in generating growth depends on their ability to improve the performance of individual firms through offering selective benefits, through collective supports to their whole sector or members, and through actions on behalf of others”. As such, he argues that most BIAs seek to develop a range of support services (i.e. selective goods) as their primary focus, which benefit only their membership or the industry as a whole depending on the nature of the service (see Table 2-1). These services can be divided into four main categories, distinguishable by their target and actual recipients, and type of service provided. It is important to note that the nature of non-excludable collective goods does not permit the exclusion of non-members, and as such there is potential for free-ridership.

**Table 2-1: BIA Support Services to Membership**

GROUP NAME	TARGET	RECIPIENT	COST TO MEMBERSHIP	EXAMPLES OF SERVICES
1. Individual firms support services	Individual members only	Individual members only	Often with costs in addition to membership fee	Information services, advice and consultancy, management training
2. Excludable collective good	All membership	All membership	Often only membership fee	Group marketing, group purchasing, social clubs
3. Non-excludable collective good	All membership	All membership, but nature of services cannot be excluded from non-members	Often only membership fee	Lobbying and representation, information dissemination to outsiders
4. Self regulation as a result of government empowerment (overlaps with #2 and #3)	Membership	Membership	Often only membership fee	Voluntary standards, branding, accreditation

**Source:** Based on Bennett, 1999

BIAs and the *logics of membership, influence, and exchange* are also shaped by the economic and social conditions of “place-ness”. Indeed, in the literature a wealth of research exists concentrating on the relationships between place-based social practices and identities upon which collective action is based (Gaston and Kennedy, 1987; Savage, 1987; Thrift, 1983; Thrift and Williams, 1987; Miller, 1992). Place-based cultural traditions, values, institutions, and norms help to mould the procedures, expectations, manifestations, and success levels of collective action. As such, BIAs and

their role in both solving collective action problems and promoting development, are conditioned by local norms, and hence vary geographically (For examples see Bennett, 1998; Patchell 1996).

### **2.3 The “Logics” and Organizational Structure of BIAs**

In a study of the associative action of business interests across Europe, Schmitter and Streeck identify four key categories of organizational properties as *domain, structure, resources, and output* (see Table 2-2). These four categories provide a partial framework with which to classify internal structure and organizational development of BIAs, which in turn allow for a better assessment of the degree to which business interests are intermediated through a BIA.

Overall, business interests are organized in a number of diverse and complex inter-organizational patterns. Many of these are demarcated into domains, corresponding to “*perceptions of special interests within the general interest of business as a class*” (Schmitter and Streeck, 1981, 140). Upon its inception, a BIA institutionalizes whose interests (i.e. which members) will fall under its organizational domain. Schmitter and Streeck argue that within this organizational domain lies an additional functional parameter, or the variance of member interests within the original domain. This functional parameter ultimately helps to define the tasks the BIA will perform. Schmitter and Streeck further itemize two common and restricting aspects of BIA organizational domains relevant to this thesis, those of *territory* and of *products*. The aspect of *territory* allows a BIA to limit its membership to firms of a particular geographic location. The structural parameter of *products* on the other hand, limits membership eligibility to firms producing a specified group or range of products (Schmitter and Streeck, 1981).

The next category or organizational property identified by Schmitter and Streeck is *structure* which refers to the internal division of administrative responsibility within a BIA. When choosing how to subdivide internal structure, a BIA has to consider how best to manage the diverse interests, classes, branches, product constituency, division of tasks (divided into member committees and office staff departments) and division of

authority of its members. The form of internal structure required by a BIA is also based on the intensity of member interest divisions, and of considerable importance to this thesis, the degree of "*power available to associations to enforce binding decisions on a heterogeneous membership*" (i.e. the *logic of influence*) (Schmitter and Streeck, 1981, 142).

Within BIA structures, Schmitter and Streeck delineate two forms of horizontal differentiation. The first is formed by members with different special interests (e.g. members who uniquely produce a particular product). The second is a group of members, who perform tasks beneficial to the membership as a whole. According to Schmitter and Streeck (1981), both types of horizontal differentiation often occur within the same BIA, and that when examining BIA structures, sub-branches can often be divided into those that are specialized by particular membership categories and those that are not.

The third category of organizational development as identified by Schmitter and Streeck is *resources*. A BIA with underdeveloped organizational properties relies solely on its membership for finance. This finance, however, is comprised mainly of voluntary contributions raised for specific purposes (Schmitter and Streeck, 1981). Members are expected to actively support and participate in a variety of voluntary, often political, activities. Additionally, as underdeveloped BIAs are often forced to compete with other BIAs with overlapping domains for members, the cost of formal membership is miniscule. Combined with the high turnover ratios characteristic of underdeveloped BIAs, the total resource endowment of such associations tends to be low, and savings or property acquisition is improbable (Schmitter and Streeck, 1981).

As a BIA develops, it strives to increase economic and strategic autonomy from both its membership and its immediate environments by institutionalizing and diversifying its resource supply to protect it from alterations in the resources received, and reduce the associations dependence on any one resource (Schmitter and Streeck, 1981). Ultimately, the members of BIAs with developed organizational structures are simply "*customers subscribing to a set of services in whose production they take no part*" (Schmitter and Streeck, 1981, 205).

The final category of organizational properties suggested by Schmitter and Streeck (1981) is the *outputs* into which extracted resources are transformed. Of great importance is governance, or the capacity of a BIA to impose binding decisions on its members. The power of governance is drawn from both the members and the state, and compliance is engendered through the use of positive incentives and negative sanctions. Overall, the level of governance accrued by a BIA has a direct impact on its relationship with the state, and by inference its relationship with its members.

**Table 2-2: The Logics of Membership and Influence in Relation to BIA Organizational Properties**

<b>Logic of Membership</b>	<b>Logic of Influence</b>
<b><u>Domains</u></b>	
<b>Narrow</b> <b>Self-determined</b>	<b>Broad</b> <b>Other-determined, coordinated</b>
<b><u>Structures</u></b>	
<b>Internally simple</b> <b>Incomplete and overlapping systems</b> <b>Fragmented, uncoordinated</b> <b>In flux</b>	<b>Internally complex</b> <b>Functional differentiation</b> <b>Integrated, hierarchically ordered</b> <b>Established</b>
<b><u>Resources</u></b>	
<b>From members only</b> <b>Spontaneous contributions based on approval of policy</b> <b>Voluntary labour</b>	<b>From a variety of environments, esp. the State</b> <b>Formalized and legally enforceable support organizations</b> <b>Paid labour</b>
<b><u>Outputs</u></b>	
<b>Members determine strategy</b> <b>Short-term perspective</b> <b>Representation</b> <b>Consensus</b>	<b>Members are one strategic environment among others</b> <b>Long-term perspective</b> <b>Intermediation, governance</b> <b>Authoritative decisions</b>

**Source:** Based on Schmitter and Streeck, 1981, 137.



### 2.3a The “Logics” and BIA Development

BIAs are not static in aim and organizational structure, but rather develop and (de-) evolve over time. Schmitter and Streeck (1981) observed that often the original goals of the association are modified as they grow. Van Warden adds that structural and goal change is at least also contingent upon the milieu and the *logics of exchange*. Indeed, “*in developing their organizational structure, associations have to satisfy the two important functions...those of representation and of control*” (Van Waarden, 1992, 537).

In his research on the development of Dutch BIAs, Van Waarden found that associations were influenced by a series of growth processes in their development, which offer an insight into the general pressures affecting the development of BIAs in relation to the *logic of exchange*. Van Waarden found that the general trend for the organizational development of associations is from a representative (i.e. underdeveloped<sup>6</sup>) to a control (i.e. developed) organization. As mentioned by Schmitter and Streeck (1981), as organizational structures of BIAs develop in scope and purpose, they begin to internalize interdependencies, and the more specialized and coordinated they become. If a BIA is “developed”, that is, a control rather than a representative association, then “*the more specialized and coordinated it is internally; the more safely its supply of strategic resources are institutionalized; and the greater its autonomous capacity to act and pursue long-term strategies regardless of short-term environmental constraints and fluctuations*” (Schmitter and Streeck, 1981, 124). By inference, a control organization therefore has discretionary powers to make binding decisions outside of the immediate representative interests of its membership.

In his study, Van Waarden (1992) analysed various aspects of an association such as *policy, growth in size, differentiation and centralization, integration into larger networks, diversification of resources and activities, and professionalization* as general indicators of the degree of relative autonomy of associations from and control over their members, and hence their level of development. Van Waarden found that underdeveloped BIAs were dominated by the *logic of membership*. Being comparatively small and homogenous, these associations tried heavily to recruit and retain member

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<sup>6</sup> Schmitter and Streeck use the terms “underdeveloped” and “developed” as synonyms of “representative” and “control”.

firms. These firms were often local, resulting in associations of *“social groups in the sense that members already knew one another from face to face contacts in transactions, as competitors or as members of a local elite.”* He found that this allowed them to *“check one another’s expectations regarding participation in collective action and to develop social ties, group identities and social control to discourage free ridership”* (Van Waarden, 1992, 534). Olson (1965) also points out that these associations, being both small and localized, are privileged when it comes to organization in that they have both economic and social incentives for members to solve collective actions problems. As such, the close spatial proximity or relative *“place-ness”* of firms contributes to the early successful development of BIAs.

Patchell describes this phenomena as being both spatially and temporally connected, adding that *“the region may be the most likely source for the evolution of cooperation”* as localized groups, over time, have an increased *“likelihood that people will enter into repeated interactions”* (Patchell, 1996, 492). Likewise, the size and locality of a particular industry helps to provide *“a minimal degree of internal cohesion, a sense of solidarity in spite of existing internal divisions”*, leading to the facilitation of inter-firm cooperation rather than competition (Schmitter and Streeck, 1981, 14). Lastly, the typically smaller size of local BIAs also allows for the easier monitoring of member behaviour, and if necessary, the enforcement of cooperation (Izushi, 1993).

Van Warden adds that these underdeveloped BIAs initially began as *“minimalist organizations”* meaning they have low start up and maintenance costs (Halliday, Powell and Granfors 1987; Aldrich, Staber, Zimmer and Beggs 1990; Van Waarden, 1992). In Van Waarden’s study, most underdeveloped BIAs had no full time staff, no geographic headquarters or offices, and held infrequent meetings. Benefits to member firms came both directly from the BIA and from the state in the form of concessions, but without expansive outlays of capital or time from the member firms (Van Waarden, 1992).

Schmitter and Streeck add to Van Waarden by noting that the activities of underdeveloped BIAs are basically limited to two kinds of activities, namely that *“they organize pressure by their members of other groups or organizations (i.e. act as a movement), and they structure and facilitate interactions of their members with each other (i.e. perform like a club).”* In both cases, underdeveloped BIAs heavily rely on voluntary member support, which characteristically is only in line *“with the members’*

*immediate, short-term interest perceptions*" (Schmitter and Streeck, 1981, 220-21), often resulting in a close relationship between policies of the association and the interests of its membership.

Van Waarden (1992) noticed that while underdeveloped forms of interest association usually began as single-issue organizations generally organized to solve a specific problem or project, they soon institutionalized cooperation by developing the organizational structure of the association. The reason for this development, argue Schmitter and Streeck, is that BIAs seek to gain strategic autonomy from the immediate influence of their membership. As underdeveloped interest association's primary output is received only by their members, and as they are therefore bound by the immediate demands of those members, the BIA must respond immediately to changes in members short term interest perceptions. As BIAs seek control, argue Schmitter and Streeck, they attempt to diversify both their outputs (e.g. insurance or social gatherings) and strategic environments (e.g. the state, forming networks with other associations) (Schmitter and Streeck, 1981; Van Waarden, 1992). To encourage and increase the profitability of its membership, an association often begins to provide selective goods made available only to members (see Table 2-1). This diversification of outputs and strategic complexity leads to an increase in the organizational complexity and size of the BIA (Schmitter and Streeck, 1981).

Herein lies a dichotomy. Structural growth in BIAs is not necessarily advantageous to the organization, its membership, and by inference, local industrial development. Schmitter and Streeck (1981) argue that as BIAs organizational structure develops, conflicts stemming from two sources evolve. The first of these is internal homogeneity. Although firms have joined together to solve common interest problems collectively and/or to gain advantages in the marketplace, individual interests that can create conflict remain. The foremost of these is a firm's fear of being driven out of business by its competitors, and the elimination of competitors is one way of ensuring their survival (Schmitter and Streeck, 1981). Schmitter and Streeck argue that the more homogenous members are within an association, the stronger the competition of its members in the marketplace. Such internal competition naturally stresses the role of the BIA and its position as a facilitator of member interests.

The second source of internal conflict stems from internal heterogeneity and the BIA's degree of success in the management of internal diversity. While an increase in membership generates more revenue and increases political power, the association must deal with the greater complexity of interest aggregation amongst members with a wider number of interests (Van Waarden, 1992). As an underdeveloped association recruits and retains members, it becomes more heterogeneous. As Schmitter and Streeck point out, this leads to "*a greater the diversity of interests involving rates of exchange between different functional areas or sectors of the economy*" (Schmitter and Streeck, 1981, 26).

This increase in internal heterogeneity often results in an increase in the variance of and differentiation along member sizes. According to Van Waarden (1991), different sized firms characteristically adopt differing, often opposing views regarding association policy. Larger firms, due to their size, extensive internal resources, and greater volume of production, tend to demand more interest representation from their BIA than smaller firms. As such, larger firms often pressure their BIA to seek trade and social policy concessions and beneficial legislation from government. Such public goods, argues Van Waarden (1991), draw larger firms to membership within a BIA, and hence selective goods serve a secondary role in their recruitment and retention.

Larger firms enjoy a resource endowment of sufficient size to procure their own services, and as such, may "*have the market power to stand outside collective structures*" (Bennett, 1999, 594). Useem (1984, 3; from Bennett, 1999) noticed that on occasion a core of large firms exercises "*a voice on behalf of the entire business community*". In short, these large firms "*may play a disproportionate role in advisory committees and activities with government, in the governance of associations, and in influence with the media, often creating resentment from the remainder of association members*" (Bennett, 1999, 595).

In contrast to larger firms, smaller firms are more attracted to offerings of general information and selective goods. These firms, whose management is characterized as being comprised of only a few people, are more dominated by the demands of immediate economic survival. As such, argues Van Waarden (1991, 70), "*selective goods are especially necessary to tie smaller firms to associations*".

Van Waarden (1991) notes that despite these differences in interest, larger and smaller firms depend on each other to successfully solve collective action problems. For fruitful lobbying of interlocutors through a BIA, larger firms enjoy a higher degree of success by incorporating a greater number of firms. Smaller firms, on the other hand, require finances from the larger firms to support the development, production, and distribution of selective goods.

Following the *logic of membership*, firms must recognize their interest in association policy, and ideally have influence on that policy. The successful subdivision of labour within a BIA then, should be designed as to reduce internal friction and ensure satisfied members. Schmitter and Streeck (1981) believe that to achieve this, the internal division of the organization should be limited only to those subunits necessary for the BIA to achieve its objectives.

Developing BIAs face a number of additional problems. Van Waarden (1992) noted that while start up costs may be low initially, the adding of structural complexity leads to a steep rise in membership costs. Underdeveloped associations often have smaller aims, and hence a lesser need for large resources. As the BIAs grew however, Van Waarden found that they required increasingly larger amounts of finance and manpower to fulfil their expanded duties. By increasing their duties to supply information, to provide manpower to fill posts on boards and committees, and to participate in lockouts, boycotts, or in apportioning strikes, BIAs formalized the obligations of the members towards the association. When the demand on members' time became too great, BIAs hired professional staff to "*become less dependent on the time effort and expertise of the members.*" These BIAs also began to amass financial reserves of their own out of membership dues. Resources from interlocutors also increased in the form of monopoly recognition and privileged access and rights that could be used as selective goods for their members (i.e. the *logic of influence*). In return, BIAs provided the state assistance in implementing public policy (i.e. helped the state implement distribution measures) (Van Waarden, 1992, 548).

The degree of professionalization found by Van Waarden (1992) in underdeveloped associations was rather small, with bureaucratic matters often being delegated to one of the members. While this was acceptable to members in the early stages of the association, Van Waarden found that members soon grew sceptical of

providing confidential information needed for lobbying to a secretary who was also a competitor. These secretaries (competitors), often lacked authority, and were accused by other members as being self serving and untrustworthy. Van Waarden found that BIAs countered this problem by hiring outside full time staff to fill these duties. This in turn increased the costs and operational structure of the association. Table 2-3 illustrates these demands posed by the *logic of exchange* on the organization structure of a BIA.

**Table 2-3: Demands Posed by the *Logics of Exchange* on the Organizational Structure of a BIA**

<i>The Logic of Membership- A Representative Organization</i>	<i>The Logic of Influence- A Control Organization</i>
<b>1. Policy</b>	
Close relation between policy and member interests Fluctuating short-term policy	Member interests reinterpreted into more general interests Stable long-term policy
<b>2. Size</b>	
Homogenous interests, hence small	Larger organizations and hence more interest heterogeneity
<b>3. Differentiation and Centralization</b>	
Internal differentiation Decentralized decision-making	No internal differentiation Centralized decision-making
<b>4. Integration into Larger Networks</b>	
Only ad hoc coordination with other interests	Durable institutionalized coordination and coalitions with other organized interests
<b>5. Resources</b>	
Low membership contributions Insecurity of contributions because of constant cost-benefit calculations by members Resource diversification as a means of reducing costs of membership	High membership contributions Stable income Resource diversification as a means to reduce dependency of the association on members
<b>6. Activities</b>	
Emphasis on production of selective goods	Emphasis on production of public goods (lobbying, interest representation)
<b>7. Professionalization</b>	
Professionalization desirable, but within limits	Professional staff
<b>8. Degree of Autonomy</b>	
Low degree of autonomy vis-à-vis members	High degree of autonomy vis-à-vis members

Source: Based on Van Waarden, 1992, 538.

Lastly, as recognized by Olson (1965), there is considerable historically based path dependency in the development of business associations (Bennett, 1998). Bennett (1998, 1369) notes that "*this may lead to suboptimal development, because associations may exist more for reasons that existed in the past than in the present; associations tend to wither rather than to die*" (North, 1990; Bennett, 1996a; 1996b; 1998).

In the literature, the role of cooperation in the development of industry is well documented. Much of this literature has focused on the direct cooperation between firms. Firms within industry however, also seek to gain a competitive advantage by joining BIAs. BIAs provide marketing, government representation (which can lead to government policy promoting growth in local development), industry governance, enhanced intra-regional competitiveness, forums for discussion, and R&D (which can lead to the cost saving benefits of external economies), and as such, their role in promoting local industrial development merits systematic scrutiny. It is by studying the *logics of exchange* affecting a BIA that its organizational structure and the overall degree which business interests are intermediated through a BIA can be understood, and by inference the degree which formal cooperation has impacted local industrial development can be assessed. This theoretical basis, combined with qualitative data collected on BIA performance during fieldwork, informs the empirical analysis of this thesis.



## CHAPTER THREE

### FORMATION AND GROWTH OF BUSINESS INTEREST ASSOCIATIONS IN THE OKANAGAN WINE INDUSTRY 1990-96

This chapter begins to directly assess the hypothesis that BIAs have played a critical role in the development of the Okanagan wine industry. In particular, it provides an introduction to the BIA derived formal cooperation between firms within the industry in the first six years following the signing of the FTA. Particular emphasis is placed on the incorporation and operations of the British Columbia Wine Institute (BCWI), the industry's most formidable association in terms of size and resource endowment. Salient characteristics of the BCWI unique to this time period include a small, homogenous, and socially cohesive membership, large and stable external resource endowment, de facto access to government, and an industry held belief that membership in the association was a legal requirement. This chapter places particular emphasis on identifying the roles these characteristics play in realising the strong *logic of exchange* relationships between firms, the BCWI, and the government. In turn, these relationships facilitate the association's evolution from a representative to more of a control organization, and allow for the provision of a high level of competitive advantage to members. An analytical distinction is made between these initial years and those subsequent, as internal politics, issues of control, structural shortcomings within the BCWI, and an unforeseen lack of governance later affect the association's potential for collective action, led to a fragmentation of formal cooperative efforts, and arguably result in the devolution of the association from a control back to a representative organization.

Structurally this chapter is divided into five major sections. The first section explains the environment conducive to collective action directly resulting from the FTA, briefly touches on those secondary BIAs founded prior to the FTA and active during this time period, and posits the rationale for the formation of the BCWI. The second section delineates the practical day-to-day operations and structural framework of the BCWI as it develops in size and scope from its incorporation, ultimately progressing from a representative to more of a control organization as theorized by Schmitter and Streeck (1981) and Van Waarden (1992). The third section explicates the *logic of exchange* relationships between the membership, the BCWI, and the government. This section

also touches on the rationale for both the membership and government in pursuing strong *logic of exchange* relationships, aspects critical to understanding the later fragmentation of the BCWI. Section four expounds on the marketing programs of the BCWI. In particular this section highlights the VQA program as a cornerstone of the marketing focus of the BCWI, as it both comprised the majority of outlay of the association's capital and is vital to comprehending later devolutions in the *logic of exchange* relationships. Finally, section five concludes by examining both key findings and implications for local industrial development during this timeframe. Overall, this chapter outlines the operations of the BCWI between 1990-96, its development and increase in autonomy, its *logic of exchange* relationships, and its major outputs, and in doing so, serves as a background framework with which to understand the fragmentation of the association in the late 1990s.

### **3.1 FTA and the Restructuring of the Wine Industry**

Prior to the GATT ruling and FTA of the late 1980s, the majority of the Okanagan wine industry was using inferior hybrid grapes to manufacture low quality wines. In addition, as the government controlled wine listings, prices, retail outlets, and implemented high tariffs on imported wine, an effective entry barrier barred foreign competition. At the time grape growers were also receiving inflated prices for their grapes under five year contracts negotiated by the powerful British Columbia Grape Marketing Board. The wine industry was, in effect, a non-competitive and heavily subsidised industry.

When the FTA was signed on January 1, 1989, there were fourteen wineries in the Okanagan Valley region comprised of seven large-sized and seven medium-sized firms (see Tables 1-1 and 1-2 for winery size parameters). In expectation of a loss of business, many of these wineries evoked the *Force Majeure* clause that allowed them, in this case of extreme emergency, to cancel their contracts with grape growers. In addition, within fourteen months, 50% of the pre-FTA preferential mark-up disappeared<sup>7</sup> (Respondents of all winery sizes).

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<sup>7</sup> Each subsequent year an additional 10% of the remaining Liquor Distribution Branch mark-ups were reduced, ending on January 1st, 1995.

Within this critical transition period, the small number of firms within the industry put aside superficial differences and attempted to solve their problems collectively to remain in business. One medium-sized winery respondent described the time around the signing of the FTA as *“a hectic time when these fourteen wineries banded together and spent two years with government in an informal working relationship trying to determine the direction the industry should take.”* Another respondent noted, *“When everyone was down for the count when you had Free Trade, and the grapes were coming out, the remaining grape growers and wineries worked pretty damned close, cause we were interested in one thing, a good industry. We did everything we could to help each other”* (Medium-sized winery respondent). Yet another mentioned *“there was a huge commitment to work together promoting the industry. A variety of different interests worked together to solve the image problem of B.C. wines. Things were bashed out”* (Medium-sized winery respondent). Indeed the general environment prior to and the initial years following the FTA was one of collective effort, close cooperation, social cohesion, and shared short-term goals.

These close inter-firm and firm-government relationships initially resulted in a number of manifestations. Perhaps the most significant was the constituting of the prescriptive British Columbia Wine Act (Bill 58-1990), a government document which laid the guidelines for the BCWI, the B.C. appellation standards, the province’s designated viticultural areas, and the Vintners Quality Alliance (VQA). Another end result of these relationships was the orchestration of the Grape and Wine Sector Adjustment Assistant Program (GWSAAP), which financed massive changes in the vineyards of the Okanagan and provided the initial outlay of capital for the founding of the BCWI.

More specifically, the GWSAAP provided \$28 million<sup>8</sup> of government funds to the industry *“to adjust grape acreage, varieties, production, and assist with promotion of wines”*. As noted by many respondents however, GWSAAP was really scripted as an *“adjustment program to get people out of the business”*. Of this \$28 million, 27 went to compensate the grape growers for uprooting their grapes and exiting the business. According to one respondent, there were three alternatives for grape growers faced with the loss of their market. The most desirable of these was for those smaller growers with

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<sup>8</sup> In 1990, the total value of wine-grape production was \$4.5 million (BCWI Annual Report, 2001/2).

mature *Vitis vinifera* vines. These growers were considered “*the lucky ones*”, as they were often able to sign new contracts with a winery and continue farming. The second and most common option for growers was to pull out their grapes, collect the \$7000 per acre offered by the GWSAAP, and exit the business. Indeed, the number of growers dropped from 225 to around 90 soon after the FTA (Medium-sized winery respondent), and a total of 2, 308 acres of mostly French hybrid and *Vitis labrusca* grapes were removed (Vielvoye, 1991).

The third option for growers was to find a means of supplementing their farm income, namely to establish small wineries where they could sell their products with added value. As one respondent pointed out, “*we were just looking for ways to continue farming*”. These growers lobbied and got approval from the provincial government for licensing as farm wineries. One respondent noted that initially the wine industry “*was not keen on having farm wineries. There was considerable resistance, but they eventually gave in. The estates later helped the farm wineries get established*” (i.e. The estate wineries supplied corks, equipment, etc. that suppliers would not sell in the small quantities demanded by the new smaller wineries).

A few vertically integrated wineries also took advantage of the finances offered by the GWSAAP. As one medium-sized winery respondent notes, “*I think it was really designed as an exit strategy, but there were a few estate wineries that used it to pull out the hybrids and plant with premium vinifera*”. The remaining \$1 million of the GWSAAP was put into a fund to help establish and finance the BCWI for the next five years.

Before the FTA and the founding of the BCWI, the wine industry within the Okanagan cooperated through two associations. The first of these was the British Columbia Estate Winery Association (BCEWA). The BCEWA began operation in 1984 as the Okanagan Valley Estate Wineries Association, only later to modify its name upon the inclusion of a non-Okanagan based member. Originally comprised of five estate wineries, the BCEWA was initially formed to help develop retail outlets for members.<sup>9</sup> As respondents noted, the BCEWA served more of a purpose, and indeed was once one of the more active BIAs within the industry, prior to the incorporation of the BCWI.

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<sup>9</sup>This was accomplished during the 1980s in the form of retail stores. Importantly, as described in chapter 5 of this thesis, these original retail stores were later re-licensed as VQA stores under the auspices of the BCWI (Medium-sized winery respondent).

Between 1990-96, the BCEWA conducted only a limited number of activities, almost exclusively through and/or in relation to the BCWI. Indeed the founding chairman of both the BCEWA and the BCWI is the same person.<sup>10</sup>

The second of these associations, the Okanagan Wine Festival Society<sup>11</sup> (OWFS), was incorporated in 1988 by a group of six wineries and tourism operators to develop awareness of and ultimately promote the Okanagan wine industry through a variety of food and wine culinary events.<sup>12</sup> The original constitution allotted for a fifteen member Board of Directors comprised of five directors from major wineries, two directors from estate wineries, four from the Chamber of Commerce, one from the Association of British Columbia Grape Growers (ABCGG), and three additional directors.

During this time, the OWFS concentrated its activities on the organizing of the Okanagan Fall Wine Festival, a ten-day series of events around the industry's vintage.<sup>13</sup> The festival included (-s) over 100 events hosted throughout the region including "gourmet dinners at restaurants and wineries, family pig roasts, jazz brunches, grape stomps, classical music evening combined with elegant dinners, and packaged wine tours" (TOTA Input Sessions September 7, 2000). The Okanagan Fall Wine Festival also included (-s) the province's most renowned wine competition featuring exclusively locally produced wines, the Festivals' Annual Judging Competition.

### **3.2 BCWI: From a Representative to a Control Organization**

This section is organized around two main goals. First, this section describes the day-to-day operations of the BCWI, with particular reference to the growth of its internal structure, level of professionalization, resources, and degree of integration into larger networks. Secondly, following Schmitter and Streeck (1981) and Van Waarden (1992), this section posits that these growth patterns characterise the development of the association from a representative to a control organization, in particular as a sign of the increase of its relative autonomy from its membership. While such autonomy appears to

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<sup>10</sup> Incidentally, his daughter is highly placed in the Okanagan Wine Festivals Society.

<sup>11</sup> Originally the Okanagan Wine Festival Society, this association changed name to Okanagan Wine Festivals Society in 1998.

<sup>12</sup> Please see the OWFS formal mandate attached as Appendix C.

<sup>13</sup> As respondents pointed out, the Fall festival (and later Spring Festival as well) advantageously draws tourists to the region during traditional non-peak seasons.

steadily increase during this timeframe, a number of industry and association changes resulting from the later fragmentation of the BCWI reverse this trend during the late 1990s.

The BCWI was incorporated under the British Columbia Wine Act on July 27, 1990 and commenced operations on December 1, 1990 (BCWI Annual Report, 1991). Structurally, it began as a minimalist organization. In efforts to maintain low overhead costs, the early BCWI shared space, staff, and equipment with the British Columbia Grape Marketing Board and the ABCGG at an office in Kelowna. At the time of its incorporation, the association employed one full-time and one part-time employee, who managed both general office duties and specific items related to each organization. As the activities of the BCWI grew, it increased its level of professionalization. In 1992, the association hired an executive director from outside of the industry. Based out of an office in Vancouver, this executive director was responsible for all promotional and public relations activities for the BCWI (BCWI Annual Report, 1991). By the end of the 1996 fiscal year, the BCWI had expanded its payroll to include an executive director and executive assistant in Vancouver, and an administrative director and five staff (including one accountant) in its main offices in Kelowna (BCWI Annual Report, 1996/97). Overall, this increase in professionalization was characteristic of the more general evolution of the association from a representative to a control organization.

Upon its founding, the BCWI was governed by an eight member Board of Directors with whom the powers of the legislative, executive and judicial rested. Seven of these members were appointed by the Lieutenant Governor in Council, while the remaining member was a government representative appointed by the B.C. Ministry of Agriculture, Fisheries, & Food (BCWI Annual Report, 1991). Although government appointed the Board of Directors, the various sectors in the industry were allowed to proffer names of their preferred representatives (which normally consisted of winery owners from their respective sectors). The BCEWA, for example, through the BCWI, proffered two candidates to government for the estate winery positions on the BCWI Board of Directors.<sup>14</sup> With only a few minor anomalies, there were initially no major problems among the membership with this method of appointing representatives.

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<sup>14</sup> From 1996, the Farm Gate Winery Association, a precursor to the Association of British Columbia Winegrowers, served a similar function for the farm winery sector.

These eight voting members of the Board, each serving four-year terms, were divided into the Executive Committee,<sup>15</sup> headed by the Chairman, and the Members.<sup>16</sup> The Executive Committee dealt with the day-to-day issues of the association, and generally met every second week via conference call. Members-at-large sent in requests for the addition of items to the agenda, which were then considered for discussion by the Board, which met a minimum of every two months (BCWI Meeting Minutes, July 5, 1995). From its incorporation, the BCWI lacked a meaningful process through which its membership could formulate and then convey its goals and desires to the association's leadership. As such, throughout the 1990s the BCEWA (and also later the Farm Gate Winery Association) served as a medium for similar sized wineries to cooperatively examine the policies of the BCWI, and formulate an opinion to bring to the committees of the BCWI as a sectoral voice. Many respondents noted,

The BCWI is an organization that never really had a forum that allowed for winery input and/or contacting these people who were elected. So it (*i.e. the BCEWA*) gave us the opportunity at the time to discuss issues, take positions, and send forward members to the BCWI and say this is what our position is (Medium-sized winery respondent).

As chapter four of this thesis will clarify in greater detail, the membership-at large consisted both of wineries who acted under the assumption that they were legally obligated to join the association (*i.e. de facto compulsory membership as a result of government backed self-regulation*), and of grape growers, who in order to sell their crop to VQA wineries, were required by the association to pay dues (Respondents of all winery sizes). Non-grape wine producing firms were not included in (*i.e. legislated as part of*) the organizational domain of the BCWI. As the number of firms within its membership-at-large was small, the BCWI's domain at its inception can be characterized as having the properties of a representative organization. During these first six years however, the number of firms within the industry continued to grow, adding size and internal heterogeneity to the domain of the BCWI.

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<sup>15</sup> At this time the Executive Committee was composed of three members. One member represented the major wineries, one the estate wineries, and one the grape growers. As there were few farm wineries initially, they had no representation on the Executive Committee until changes in the internal structure of the BCWI in 1997.

<sup>16</sup> These members are not to be confused with the membership-at-large. Rather they are board members who serve as representatives for the major wineries, estate wineries, farm wineries, grape growers, and the B.C. Ministry of Agriculture, Fisheries, and Food.

Early BCWI funding came from two distinct categories of sources. The first of these was its membership-at-large. The BCWI collected levies on tons<sup>17</sup> produced and wines bottled.<sup>18</sup> From April 1993, the BCWI began to collect an additional \$0.05 cents a litre from wineries for use on future VQA marketing promotions.<sup>19</sup>

The second and most significant category of funding received by the BCWI between 1990-96 was from outside sources, particularly the provincial and federal governments. As the Table 3-1 illustrates, the BCWI enjoyed considerable financial support from government. This represented approximately 88% of its total resource endowment in the initial years following its incorporation, and allowed the association to reduce its dependency on its membership, construct internal structure, operate a highly diverse range of programs, and build expectations based on the procurement of this endowment. As these resources appeared stable, in terms of its finances the BCWI began operation as more of a control organization.

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<sup>17</sup> The BCWI grape tonnage levy is based on short tons. (1 short ton=907.2 kilograms)

<sup>18</sup> When the BCWI was incorporated, it collected levies of \$25.00 per processed ton from the growers and wineries based on the previous years crop. By 1996, these levies reached \$55 per processed ton plus an additional \$10 per ton developmental levy (BCWI Meeting Minutes, October 11, 1996).

<sup>19</sup>This was later replaced with Bylaw 7, which raised this amount to \$0.065 cents per liter in 1997 (BCWI Bylaws, 1997).



Table 3-1: Total Resource Endowment of the BCWI in 1991

<u>Source</u>	<u>Administration</u>	<u>Aim</u>	<u>Amount</u>	<u>% of Total Funding</u>
Canada Promotion Fund	The BCWI submitted annual proposals to the CWI for grant money from the federal government	General market development programs within Canada	\$460,000	46%
B.C. Grape and Wine Sector Adjustment Assistance Initiative	Provincial government	Annual fund for promotion activities (ended in 1995), used for point-of-sale materials and other advertising	\$380,000	38%
Program for Export and Market Development	Annual federal funds which were administered by VQA Canada (a sub-committee of the CWI)	Covered 45% of costs for new market development projects	\$40,000	4%
Miscellaneous additional funding sources			\$7,000	<1%
Membership-at-large (general levies)			\$120,000	12%

=88% External Funding

=12%

In 1993 the internal structure of the BCWI was expanded to include a number of new committees, each of which was designed to perform tasks for the benefit of the entire membership-at-large. This increase in complexity again characterizes the BCWI's transition to more of a control organization. These committees were comprised of volunteers, who were normally from the association's membership-at-large, and were meant to review "*BCWI programs, administration, and policies, and act in advisory capacities to the Board of Directors*". That is, committees did not make decisions, but rather made recommendations to the Board of Directors, who acted upon them at their discretion. As such, decision-making was centralized on the Board of Directors, which when compiled with governance and finance from the government, allowed the Board to make enforceable decisions on industry, as well as formulate independent long-term strategies.

The BCWI solicited committee members from amongst the membership-at-large through application forms, with interested parties returning the application to the administrative offices of the BCWI in Kelowna (BCWI Meeting Minutes, June 2, 1995). Committees were eventually required to keep minutes for all meetings and then submit copies to the Board of Directors, and were encouraged to meet regularly regardless if full attendance of committee members could not be achieved (a noted problem) (BCWI Board of Directors Meeting Minutes, January 12, 1995; BCWI Meeting Minutes, June 2, 1995; Respondents).

The first committees introduced to the structure of the BCWI were the Marketing Committee and the Export Committee. By 1995, the internal structure of the BCWI had expanded to include the Domestic Marketing Committee, Export Committee, Finance Committee, Policy Committee, the Technical Committee, and the Strategic Plan Implementation Committee, shown in Table 3-2. Salient descriptions of their compositions, histories, activities, and main contributions are offered in this table.

**Table 3-2: The Internal Committee Structure of the BCWI in 1996**

**Domestic Marketing Committee**

<b>Member composition</b>	Membership-at-large (exclusively medium & large wineries), occasionally grape growers and outside consultants
<b>Start date</b>	1993
<b>Committee function</b>	Develop generic marketing programs; obtain funding from outside sources
<b>Main contributions 1990-96</b>	Committee programs helped to establish the VQA brand mark, and to increase both the price per bottle of VQA wine and member market share in the premium B.C. market; successfully organized food/wine pairing programs; BCLDB point-of-sale materials/programs; tourism brochures

**Export Committee**

<b>Member composition</b>	Membership-at-large (mostly medium & large wineries), occasionally representatives from the B.C. Grape Marketing Board, B.C. Trade Development Cooperation, and outside consultants
<b>Start date</b>	1993
<b>Committee function</b>	Investigate new market opportunities for members overseas
<b>Main contributions 1990-96</b>	Implemented 5-year export strategy developed by the National Export Committee; marginally successful entry into UK market

**Finance Committee**

<b>Member composition</b>	Membership-at-large (mostly medium & large wineries), grape growers
<b>Start date</b>	1994
<b>Committee Function</b>	Report financial information to members; provide the Board of Directors with recommendations on the spending and sourcing of funding; attempt to lay out long-term financial plan leading to self-funding; budget planning; program analysis <sup>20</sup>
<b>Main contributions 1990-96</b>	Completion of above functions

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<sup>20</sup> BCWI Annual Report, 1995/6

Table 3-2 (cont.):

**The Internal Committee Structure of the BCWI in 1996**

**Policy Committee**

<b>Member composition</b>	<b>Membership-at-large, grape growers</b>
<b>Start date</b>	<b>1994</b>
<b>Committee function</b>	<b>Receive recommendations on policy issues from growers and wineries; make suggestions to the Board of Directors regarding policy issues</b>
<b>Main contribution 1990-96</b>	<b>Produced and updated policy handbook containing vineyard data, history of the industry, the Wine Act, bylaws, financial information, the annual report, wine standards, policy and procedures, licensing guidelines, information on competitions, and a directory<sup>21</sup></b>

**Technical Committee**

<b>Member composition</b>	<b>Membership-at-large, grape growers, Agriculture Canada, BCMAFF</b>
<b>Start date</b>	<b>1994</b>
<b>Committee function</b>	<b>Oversee all aspects of VQA program (including supervising VQA tastings, the VQA approval process, and training VQA panellists)<sup>22</sup>; develop and enforce B.C. wine standards; work with external organizations to develop national VQA standard<sup>23</sup></b>
<b>Main contribution 1990-96</b>	<b>Completion of above functions. Helped to script major legislated revisions to B.C. Wine Act in 1996</b>

**Strategic Plan Implementation Committee**

<b>Member Composition</b>	<b>Membership-at-large (almost exclusively medium and large wineries), government representatives from the BCMAFF, BCLCB, BCLDB</b>
<b>Start date</b>	<b>1994</b>
<b>Committee Function</b>	<b>Oversee recommendations that were presented in the Grape and Wine Strategic Plan, which identified wine industry objectives in effort to harmonize government policy and industry goals<sup>24</sup></b>
<b>Main contribution 1990-96</b>	<b>Helped to define guidelines for the Winery "J" License thereby furthering the development of wine based agritourism; helped to facilitate revisions to the B.C. Liquor Act as it pertained to winery licenses<sup>25</sup></b>

**Source:** Fieldwork, 2003

These committees<sup>26</sup> did much of the early work and set the direction for the early BCWI. Importantly, they also provided the sole institutionalized means for the membership-at-large to attempt to influence the actions and policies of the association. Rather than the membership-at-large as per a representative organization, the Board of Directors alone determined strategy.

<sup>21</sup> BCWI Meeting Minutes, March 30, 1995

<sup>22</sup> BCWI Annual Report, 1995/6

<sup>23</sup> BCWI Annual Report, 1996/7

<sup>24</sup> BCWI Annual Report, 1994/5

<sup>25</sup> In 1998, with pressure from the BCWI, the attorney general collapsed the previous licensee structure into one category.

<sup>26</sup> One additional committee not discussed here was Communication Committee. The Communication Committee was formed in 1994, but never really got off the ground. It was meant to help the industry to form cohesive responses on such public issues as health and wine, and warning signs related to the consumption of alcohol. It suffered from a lack of member interest and was eventually dismembered (BCWI Meeting Minutes, June 2, 1995; BCWI Board of Directors Meeting Minutes, January 12, 1995).

In accordance with Schmitter and Streeck (1981) and Van Waarden (1992), the BCWI also attempted to diversify its strategic environments and move to more of a control organization to distance itself from the immediate, short-term interests of its membership-at-large. As such, it quickly developed ties with other associations, representative bodies, and external committees that were pertinent to the development of both the association and the industry. This included working jointly with the Canadian Wine Institute (CWI) and the National Export Committee (NEC) to develop export markets. Table 3-3 identifies each of these external relationships, and some of the benefits that resulted.

**Table 3-3: BCWI External Networks by 1996**

**Viticulture and Oenology Committee**

<b>Participants</b>	BCWI, ABCGG; Major Wineries, Plant Quarantine, BCMAFF
<b>Function</b>	To develop, exchange, coordinate and encourage the development of cool climate viticultural information for grape and wine industries <sup>27</sup>
<b>Main achievements 1990-96</b>	Served as a liaison between the BCWI and the ABCGG; organized occasional viticultural conference

**Canadian Wine Institute (CWI)**

<b>CWI mandate</b>	The national association that represented the Canadian wine industry to the federal government
<b>Participants</b>	BCWI, other provincial wine associations, federal government
<b>Function as related to the Okanagan wine industry</b>	To develop national VQA rules and regulations for legislation in efforts to better market wine internationally; allocate finances for the Canadian Promotion Fund
<b>Main achievements 1990-96</b>	First nationwide effort to develop a national wine standard

**National Export Committee (NEC)**

<b>Participating groups</b>	BCWI, Ontario VQA
<b>Function</b>	Promote export of Canadian wines internationally, with particular focus on the United Kingdom <sup>28</sup>
<b>Main achievements 1990-96 as related to the Okanagan wine industry</b>	Secured funding from the federal government through the Program for Export Market Development (PEMD); limited success in entry into UK for some BCWI members.

<sup>27</sup> BCWI Annual Report, 1995/96

<sup>28</sup> BCWI Annual Report, 1994/95

Table 3-3 (cont.): BCWI External Networks by 1996

**Okanagan Wine Festivals Society (OWFS)**

Main participating groups	BCWI, other Okanagan based tourist associations and businesses (all contributed finance and time)
Function	To organize seasonal festivals promoting wine based agritourism in the Okanagan Valley region.
Main achievements 1990-96	Successful operation of Okanagan Fall Wine Festival; wine based agritourism development
Relationship with BCWI	BCWI contributed time and money <sup>29</sup>

**The B.C. Estate Winery Association (BCEWA)**

Organizational domain	Estate-sized wineries within the Okanagan Valley region (and later all of B.C.)
Relationship with BCWI	The BCEWA met outside the auspices of the BCWI, and would suggest opinions on and changes to BCWI policy, issues, and leadership in a unified voice <sup>30</sup> ; coordinated the selection of a representative to suggest to government for a position on the BCWI executive committee

**The Meritage Association (MA)**

Mandate	A California-based association that promotes wine blended from Bordeaux varietals. The MA owns a registered trademark on the term "meritage"
Importance to the Okanagan wine industry	Entered into relationship with BCWI in 1995, which allowed the BCWI to incorporate the MA's standards for producing meritage wines in the B.C. Wine Standards <sup>31</sup>

Source: Fieldwork, 2003

As noted by Schmitter and Streeck (1981) and Van Waarden (1992), young BIAs develop in size and scope to distance themselves from and establish control over the immediate short term interests of their membership. Between 1990-96 the BCWI can be characterized as having developed in a similar manner (see Figure 3-1). The BCWI began with a geographically concentrated and socially cohesive membership. Government subsidies provided stable resource contributions, allowing the association to increase its staff and internal structure. As firms believed membership to be compulsory, the BCWI, through the centralized decision making body of the Board of

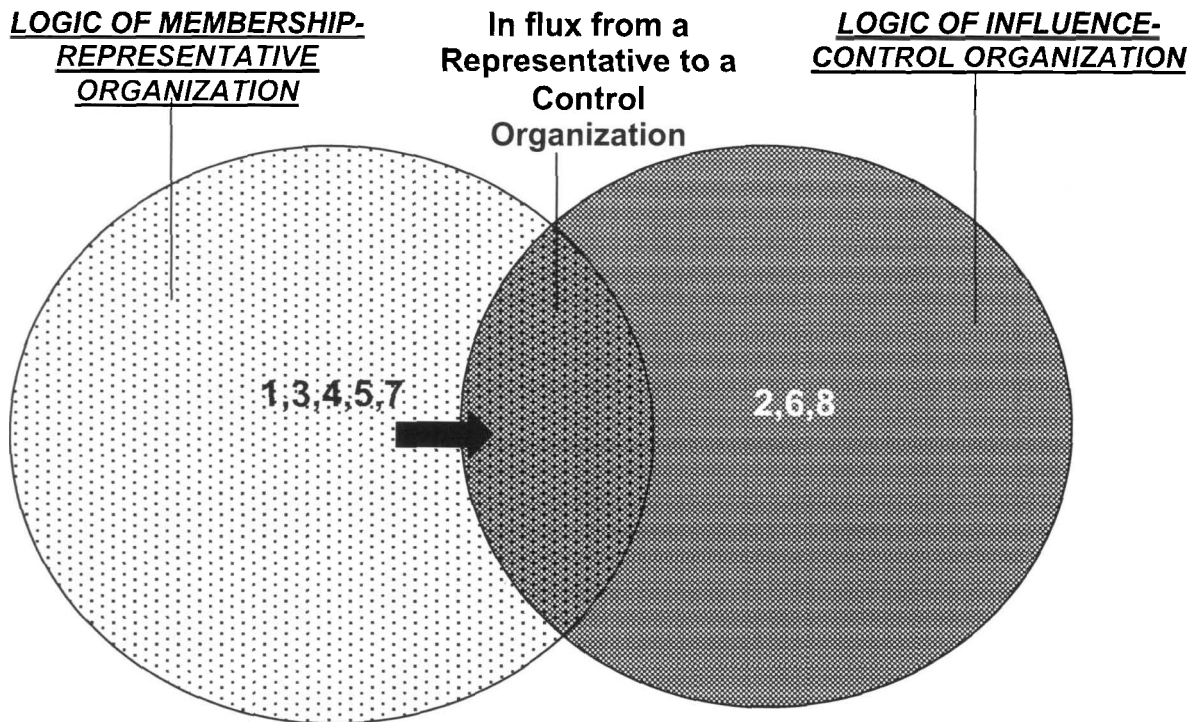
<sup>29</sup> Funding for this support was taken from a levy introduced on VQA sales (BCWI Meeting Minutes, July 5, 1995).

<sup>30</sup> Respondents; BCWI Board of Directors Meeting Minutes, January 12, 1995

<sup>31</sup> BCWI Meeting Minutes, March 30, 1995

Directors, was both allowed to develop long-term goals and enjoyed a high degree of autonomy from its membership.

Figure 3-1: BCWI's Movement to a Control Organization (1990-96)



1. **Domain/Size-** The BCWI began with a small number of geographically concentrated members. In progressive years the number of firms increased, and by inference so did the internal heterogeneity of the association.
1. **Resources-**The BCWI was almost entirely government funded. This funding appeared stable.
1. **Structures/Differentiation & Centralization-**The BCWI began as a minimalist organization, yet increased staff, and internal structure. The BCWI was highly centralized, with the Board of Directors making all decisions.
1. **Integration into Larger Networks-**During this time, the BCWI started to increase its strategic environments.
1. **Outputs-**Ideas stemmed from the membership-at-large, government, etc., but Board of Directors ultimately determined strategy. The BCWI attempted some development of long-term goals (e.g. development of export markets).
1. **Activities-**No selective goods as all firms "required" to join. BCWI focused on marketing, lobbying, and interest representation
1. **Professionalization-** Increases in paid professional staff, voluntary committees
1. **Degree of Autonomy-**High as membership-at-large both "required" to join and with no institutionalized means of electing Board or directly affecting policy



### 3.3 The Logic of Exchange

#### 3.3a The Contingent Logic of Membership

At this early stage in the development of the BCWI, 98.8% of BCWI membership was spatially concentrated in the Okanagan Valley region, and as such had developed informal social ties. As Olsen (1965), Van Waarden (1992), Patchell (1996), and Schmitter and Streeck (1981) theorized and respondents within the industry noted, these firms had both economic and social reasons to solve collective action problems cooperatively. In addition, stresses resulting from changes brought about by the FTA drew the firms within the industry together. When asked what they considered the early goals of the association to be, many respondents simply replied "*survival*". Those more optimistic added: "*and to create a world class wine industry*". As one medium-sized winery respondent noted, "*If people read the letters of the day it was all doom and gloom. We had a common cause that forced us together, there were enough of us even then who were too old and too stubborn to be retrained*". These conditions help to characterize the early *logic of membership* relationship.

It is also vital to consider the implications of an association largely subsidized by government. As government provided over 85% of the early BCWI's resource endowment (Table 3-1), the *logic of membership* relationship between the membership-at-large and the BCWI allowed member firms to accrue maximum benefits/concessions from the association with only a minimal outlay of financial capital. Indeed, this relationship can be characterized as being strong yet unchallenged, and partially contingent on the acquisition of this external funding. Although in subsequent years additional funding was received from sources not listed itemized in Table 3-1, it is pertinent to understanding the later devolutions in the *logic of membership* relationship that a large percentage of all external funding came from provincial and federal government sources allocated from programs that would experience cut-backs or were set to expire in the mid-1990s.

Drawing on the operational structure described in section 3.2, the membership-at-large, through the committee structure, but only after approval from the Board of Directors, organized the projects of the BCWI. Within the internal structure of the BCWI as prescribed by the B.C. Wine Act, the membership-at-large (and by inference committee structure) had no means of electing Board members or directly affecting

association policy. This represents, in effect, an informal *logic of membership* relationship contingent on the discretion of the BCWI Board of Directors, who were in fact nominated by government rather than elected by industry. As the funding of the BCWI was mainly derived from external sources, rather than levies from within the organizational domain, and the majority of industry was socially cohesive, of similar equality (i.e. a fairly equal distribution of wealth and premium market share to each firm), and in favour of the programs operated by the BCWI, minimal stress was put on this contingent *logic of membership* relationship by the membership-at-large. Indeed during this time period, any competitive advantage accrued from the policies of the Board of Directors came at a minimal cost to individual firms, and can therefore be viewed as being a munificent benefit.

### **3.3b The Logic of Influence**

In brief, through the Wine Act the government empowered the BCWI to “*establish minimum standards for wine; establish a word phrase, symbol, or label by which a processor whose wine has been certified by the institute as meeting the relevant standards established may describe, label or advertise that wine as meeting the standards; establish a levy paid by all processors; establish a levy paid by producers; establish fees for registration, certification of wines and testing of wines; require a producer or processor to supply such information as the institute considers necessary expend money raised by levy for administration expenses, promotion of wine, enforcement of standards, market research and development, viticulture R&D, and creating and maintaining an information base to be made available to government and other persons*” (B.C. Wine Act, 1990).<sup>32</sup>

Indeed, as the BCWI was a government legislated and subsidized association, the above mandate provides an initial understanding into the ideal *logic of influence* relationship from the perspective of government. The B.C. Wine Act formalized the BCWI as the industry’s recognized voice to government. As such, and in addition to the large resource endowment described previously, the BCWI enjoyed a privileged de facto access to both provincial and federal governments (and by inference the BCLDB/BCLCB), resulting from a strong *logic of influence* relationship. During this time, the BCWI requested and secured funding from a variety of government organizations,

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<sup>32</sup> Please see Appendix D for the published mandate of the BCWI.

and worked regularly, and as many respondents in all sectors noted “*successfully*”, with various levels of government on policy development and the redirection of the industry following the FTA.

The B.C. Wine Act also legislated the organizational domain of the BCWI. The membership-at-large consisted of firms who “registered” with the BCWI and paid levies. Firms were required under the B.C. Wine Act only to register, but as many firm and association respondents mentioned during the interviews, firms had paid levies to the BCWI during this period as there was an assumption within industry that “*it was required by law*” (Respondents of all winery sizes) (see Table 3-4). As such, the BCWI enjoyed both the benefits of a strong *logic of influence* relationship with government (and by inference *governance over the industry*), as well as a de facto representational monopoly between the domain and interlocutors. In addition, as it was considered a legal obligation to join the association, and as during this timeframe this obligation remained unchallenged, the turnover (i.e. in terms of recruiting and retaining) of firms and problems of free ridership were non-issues.

**Table 3-4: Firm’s Responses as to why they Initially Joined the BCWI (1990-96)**

REASONS	SMALL WINERIES	MEDIUM WINERIES	LARGE WINERIES	TOTAL
Thought was/is legally required by law	8	2	0	10
VQA to show quality to customer/legitimacy to winery	2	2	2	6
Generic marketing	1	3	2	6
Social Reasons	2	3	0	5
Industry information	1	0	0	1
Support for a form of industry quality control	0	1	0	1
Belief in ideal of cooperation	0	1	0	1

Source: Fieldwork, 2003

Notes: This tabulation was based on responses from seventeen firms and includes double counting.

As respondents in all sectors and the associations noted however, this de facto ear of government did not always result in concessions to the BCWI or industry. In an

economic study of the British Columbian wine industry after the FTA, Carew concluded that “*domestic wine pricing and profitability options were severely eroded by high taxation and mark-ups on wines marketed through the BCLDB*” (Carew, 1998, 252). Indeed, the Okanagan wine industry since the FTA has been taxed at a higher rate than any other comparable wine industries (BCWI Annual Report, 1992; Respondents of all winery sizes). For example, in 1995, a \$12.75 bottle of VQA wine, after federal and provincial taxes,<sup>33</sup> would leave a winery only \$4.61 net. By comparison, the same wine made in New Zealand would leave \$6.80, and a small winery in California \$8.70 (BCWI Annual Report, 1995/6). As a medium-sized winery respondent noted,

Well, we have had limited effectiveness. Government pats us on the head and says we are proud of you, but they are taxing us to death.

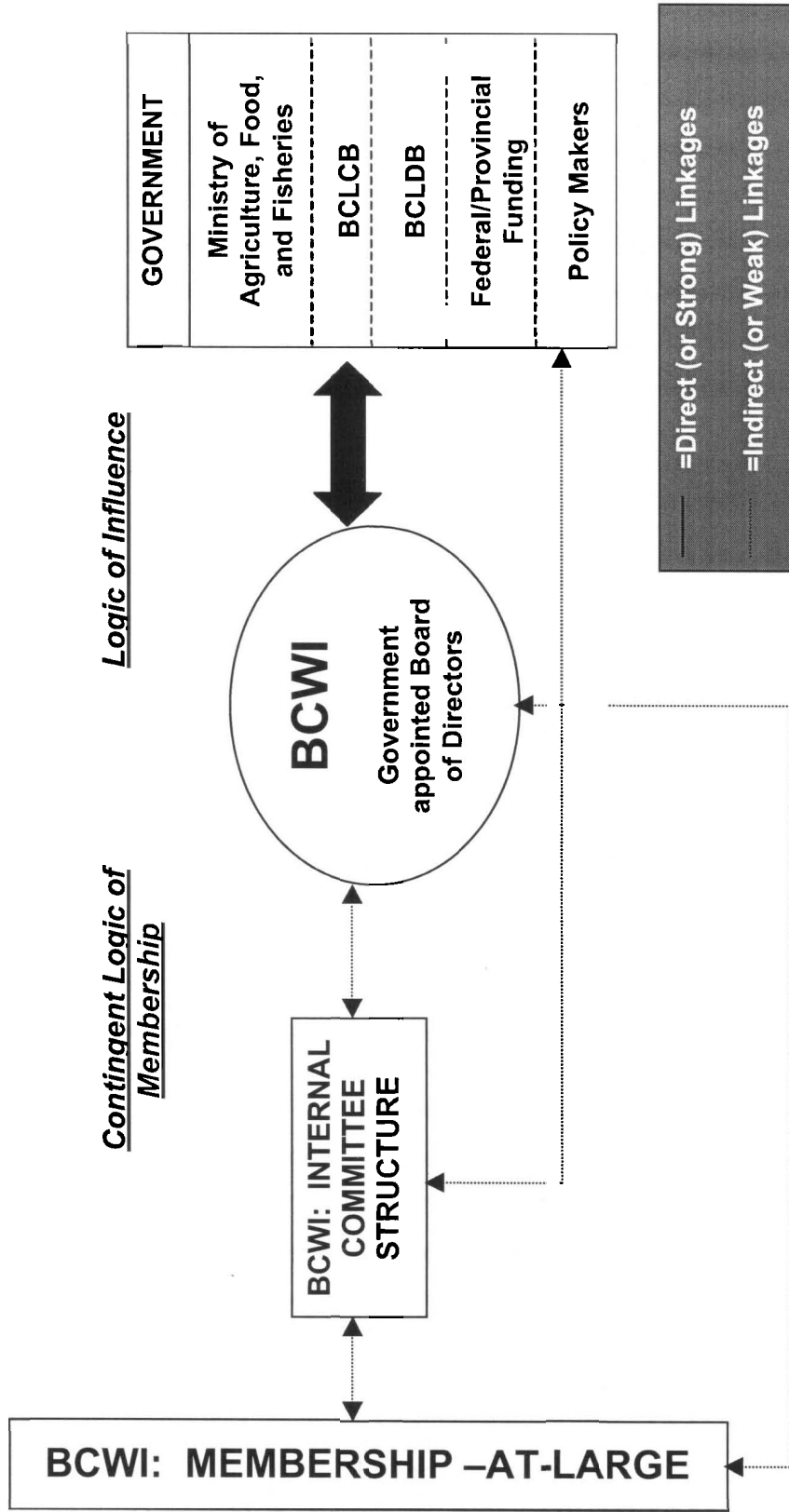
Figure 3-2 shows the basic *logic of exchange* relationship between the membership-at-large, the BCWI, and the federal/provincial governments. Reading from left to right, from the membership-at-large (i.e. organizational domain) came funding/policy ideas, time on committees, and through government proclamation were appointed as Board members. The committees then passed those ideas to the Board of Directors (i.e. intermediaries) who in turn (and if desired), would convey them to government (i.e. interlocutors). In return, the government provided financing, appointed the Board of Directors, and then delegated to them the power to govern and regulate the industry. To government, this produced a more powerful BCWI, which promoted jobs, increased tax revenue, and created the advantage of having only one industry voice with which to interface.

According to the B.C. Wine Act, the Board of Directors comprised the executive, the legislative, and the judicial branches of the BCWI. Indeed, the BCWI at this time truly refers only to the central decision making of (i.e. control by) the Board of Directors. As such, direct or strong linkages on the chart refer to immediate, formalized, and involuntary exchange relationships from the perspective of the Board. It is also important to note that there were neither direct linkages between the membership-at-large nor committee structure and the Board of Directors.

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<sup>33</sup> It should be noted that wineries are unable to deduct provincial taxes as a business cost.

Figure 3-2: Institutionalized Logics of Exchange between the BCWI's Membership-at-Large, Board of Directors, and Government (1990-96)



### **3.4 BCWI Outputs: VQA and Marketing**

#### **3.4a Marketing Foundation- Vintners Quality Alliance**

Following the FTA, leaders in industry asserted that one key to the survival of the industry lay in the purging of its reputation for poor quality wines. As one respondent from the BCWI notes *"We needed to be aggressive about telling the world where we are, we needed to adopt standards so that we know that there are no inferior grapes and so we can put behind us once and for all the reputation of bad wine coming from Canada"*. Industry leaders advocated for standards of production to ensure consumers that the quality of wines were above a minimum standard. In addition, wineries producing wines from 100% locally grown grapes, rather than using imported grapes or bulk juices, wanted some method of distinguishing that difference to consumers. To solve those problems the industry adapted the appellation of Ontario,<sup>34</sup> the Vintners Quality Alliance (VQA), as a cornerstone of its operations.

The VQA program was designed to be a brand-mark that would identify wines manufactured from 100% British Columbian grown grapes, dictate grape variety, codify acceptable winemaking practices, prescribe labelling standards and distinguish those BCWI wineries that succeeded in meeting the criteria.<sup>35</sup> Finished wines, which met the above criteria, were then blind tasted, had to pass a sensory evaluation, and then obtain final approval from the Board of Directors before being deemed a VQA wine.

VQA became the dominant focal point of many early BCWI programs, and as such impacted the development of the internal structure and operation of the early BCWI. The VQA was not only a basis for appellation standards, but became a marketing tool for the industry, and an institutionalized BCWI-operated form of quality control

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<sup>34</sup> The term VQA is a trademark licensed to the VQA of Canada, a company in Ontario owned by private interests, namely an independent alliance of wineries, grape growers, the LDB of Ontario, and other institutes (but defined by many smaller firms within the Okanagan wine industry as *"large Ontarian wineries"*). The BCWI has a licensing agreement with the VQA of Canada to use its trademark. It is also important to note that Ontario VQA and the VQA of the BCWI contain a variety of differences in production, processing, and regulation.

<sup>35</sup> As chapter 4 of this thesis will expand on, many within the industry would add *"and opted for meeting the criteria"* (Small and medium-sized winery respondents).

(Respondents of all winery sizes). In effect, as illustrated in Table 3-5, the VQA program provided the original founding members of the BCWI with a strong competitive advantage between 1990-1996.

**Table 3-5: The VQA Program and Strong Competitive Advantage**

	YES	NO
Large Firm	2	0
Medium Firm	3	1 <sup>36</sup>
Small Firm	2	0
Total	7	1

**Source:** Fieldwork, 2003

**Notes:** Of the eighteen founding wineries, only the responses of eight are included above. Of the remaining ten firms, eight have since changed ownership, one winery is not based within the study area outlined by this thesis, and one winery was unwilling and/or unable to sit for an interview.

In particular, respondents of all sectors spoke highly of the VQA program during this time period in educating the consumer, serving as a marketing technique, and its overall success as a program in positively affecting the industry immediately following the FTA as seen in the cross section of responses below.

On educating the consumer as to the quality available:

VQA helped to educate consumers, and raised the level of winemaking in the Valley. It raised the bar dramatically (Large-sized winery respondent).

I know the results from the beginning. They (*i.e. the BCWI*) created with VQA a strong knowledge of quality-approved wines. They started a very good thing (Small-sized winery respondent).

The BCWI was successful initially. Nobody knew about B.C. wines and they changed those perceptions with VQA (Small-sized winery respondent).

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<sup>36</sup> It is interesting to note that this firm now sells products almost exclusively from its winery, and noted during an interview that it is experiencing "below average profitability". This firm is also now not a member of any BIA.

On the use of the VQA as an early marketing tool:

Reasons for joining VQA? Well a lot of it was historical. At the outset when they first started back in 1990, you had to do some generic marketing and the BCWI started to make wines under the VQA banner. It was the industry's attempt at an appellation standard. They also used it as marketing (Medium-sized winery respondent).

The early VQA was huge for us...it created an awareness for B.C. wine and it got people to try B.C. wines... the reason people tried is that with VQA there was a sense of quality of something good about the branding (Medium-sized winery respondent).

On the overall success of the VQA program:

I am an old-timer in the industry and I was there when it was formed...the VQA has really brought the industry to where it is today as far as our quality wines (Small-sized winery respondent).

I think VQA is the single most important thing that happened to turn the industry around (Medium-sized winery respondent).

Before, they built a lot of credibility with the VQA program which is now taken for granted (Large-sized winery respondent).

We were a founding member of the VQA program, and it was required to join the program. The program was part of the early 1990s commitment to quality. This marketing program was the most successful we have ever seen (Small-sized winery respondent).

The new folks don't understand. If it were not for the BCWI and VQA we would not be where we are today. We all worked together during a challenging time (Small-sized winery respondent).

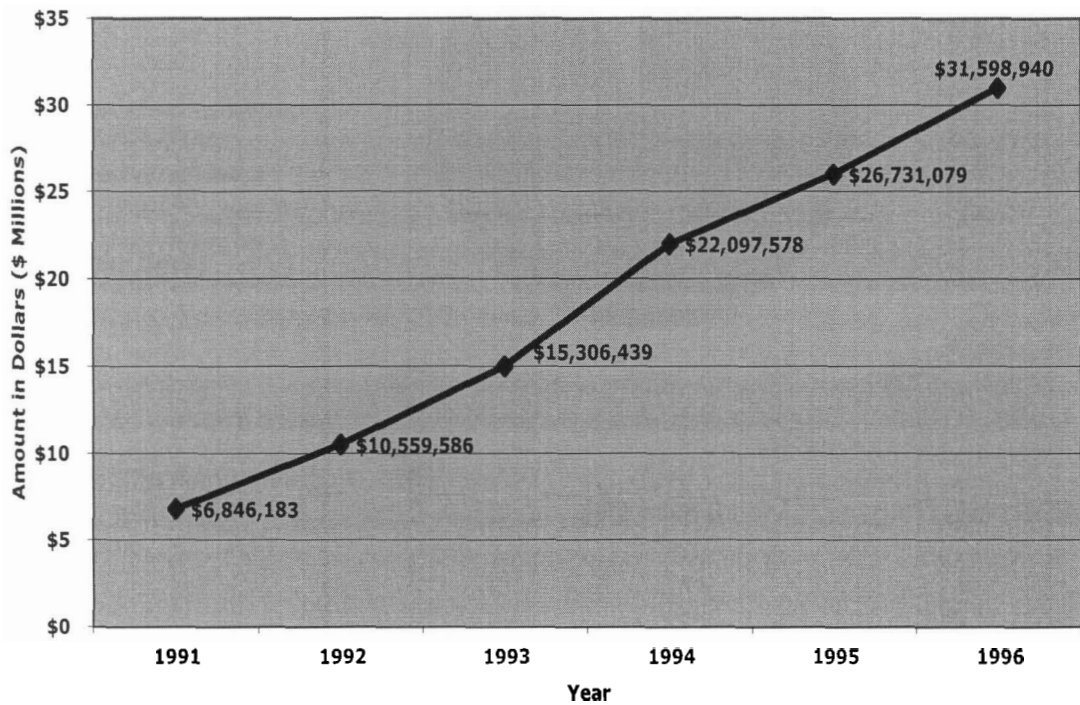
Counter-arguments do exist however, as one respondent noted:

The BCWI can point to the VQA and say that they have been responsible for the growth in the industry, but I am not sure it would have happened anyway. There are two factors that have been responsible for the growth of the wine industry. The one is this reorientation of a production driven industry to a marketing driven industry, the other one is that we have not had a tough winter and the resulting large kill off of vines for 15 years (ABCW respondent).



The majority of industry opinion within all sectors however, is that the early VQA program provided a tangible brand-mark of quality to consumers, a motivating force which contributed to a rise in quality of wine, an increase in the profit to the winery per litre,<sup>37</sup> and a resulting overall increase in sales throughout all sectors of the industry (see Figure 3-3).

**Figure 3-3: B.C. VQA Sales (1991-96)**



**Source:** BCWI Annual Report, 1996/7

**Notes:** Figure 3-3 includes data from up to 6 BCWI member firms located outside of the Okanagan Valley region (out of a total of 38 member firms in 1996).

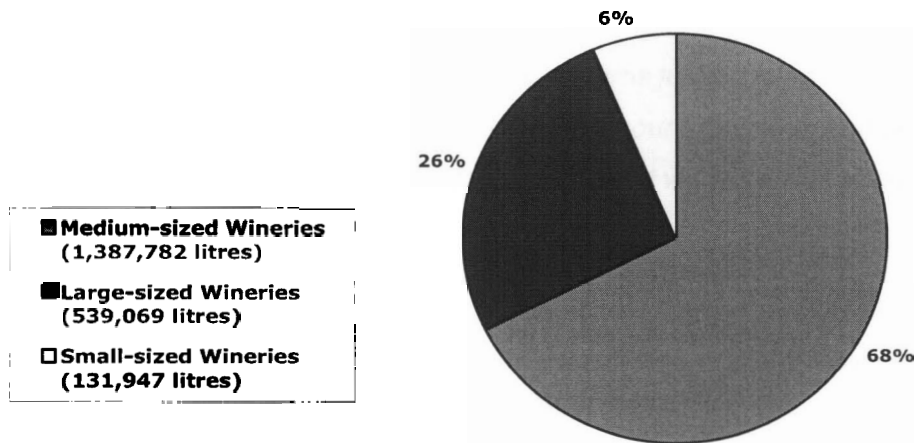
It is consequential to note that during this time period VQA sales (and by inference premium wine sales) were dominated by the medium-sized winery sector. As

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<sup>37</sup> For example, profit to the winery per litre increased from \$1.61/litre in 1988 to \$3.01/litre in 1993 (Ross, 1995, 59).

respondents noted and Figure 3-4 illustrates, medium-sized wineries “drove the early BCWI”.

**Figure 3-4: B.C. VQA Sales in Litres by Sector in 1996**



**Source:** BCWI Annual Report, 1996/7

**Notes:** As with Figure 3-3, Figure 3-4 includes data from 6 non-Okanagan based BCWI member firms.

By contrast, it is interesting to compare the above distribution of VQA sales by sector with the distribution of non-VQA sales by sector for the same time period. Whereas the medium-sized wineries led the industry in VQA sales, the larger wineries accounted for over 99% of all non-VQA wines produced in the Okanagan Valley region (BCWI Annual Report, 1996/97). Dictated by economies of scale, such production at this time can be characterized as being based on the price point rather than the quality market.

### **3.4b General Marketing in B.C., Canada, and Internationally**

With a membership competing in a freer market, the BCWI made a concerted effort to develop new marketing channels. For the purpose of analysis in this thesis, BCWI marketing programs between 1990-96 are divided into three geographic

categories: those programs targeting British Columbia; those targeting the rest of Canada; and those targeting international markets. Indeed, as mentioned previously, the promotion of VQA awarded wines was a key focal point in these programs.

According to the 1994 BCWI Annual Report, by 1993 the BCWI had identified its priority marketing focus for British Columbian retail outlets as listed in the following order of importance: BCLDB retail outlets, licensees, other retailers, and wine-gate sales (BCWI Annual Report, 1994/95). One medium-sized winery owner inadvertently described the appropriateness of such a marketing strategy "*A lot of folks started making decent reds and whites and making decent returns just banging that product into the liquor board...it enabled us a chance to increase our production and do it in a wine that was easy to make, a low cost wine to produce, and we were able to grow on that basis*" (Medium-sized winery respondent).

Using external funding and de facto access within the BCLDB resulting from a strong *logic of influence* relationship with government, the BCWI concentrated on low cost in-store advertising campaigns promoting British Columbian grown VQA wines using promotional materials such as binders, varietal posters, signage, and other point-of-sale materials. The Christmas image program, for example, was an inexpensive program consisting of "*very simple printed rolls of ribbon that can be used to decorate VQA sections and gold laminated grape cluster shelf talkers and Christmas gift ideas*" (BCWI Meeting Minutes, Nov 18, 1994). Overall respondents in all sectors found these BCLDB targeted promotion programs "*highly successful*" and "*good value for the money spent*".

The BCWI also concentrated on direct marketing channels, such as restaurants, with programs such as *Wine and Dine*. *Wine and Dine* partnered the industry with restaurateurs "*in order to build a premium image with consumers for B.C. wines*" (Respondents of all winery sizes). In addition, the BCWI organized a series of well-attended wine-food pairing restaurant events such as the *Salmon and Pinot Blanc* and the *Chicken and Riesling* program, often rated by respondents in all sectors as "*highly successful*". These events were part of a larger focus to capture media attention, and were held in conjunction with media launches, and media tours of the wineries (BCWI Annual Report, 1992). As one respondent explained "*It used to be awesome. They (i.e. the BCWI) used to bring media tours through the Valley. It's a huge marketing tool to have a 40 or 50 person bus full of Vancouver media at your winery as a captive*

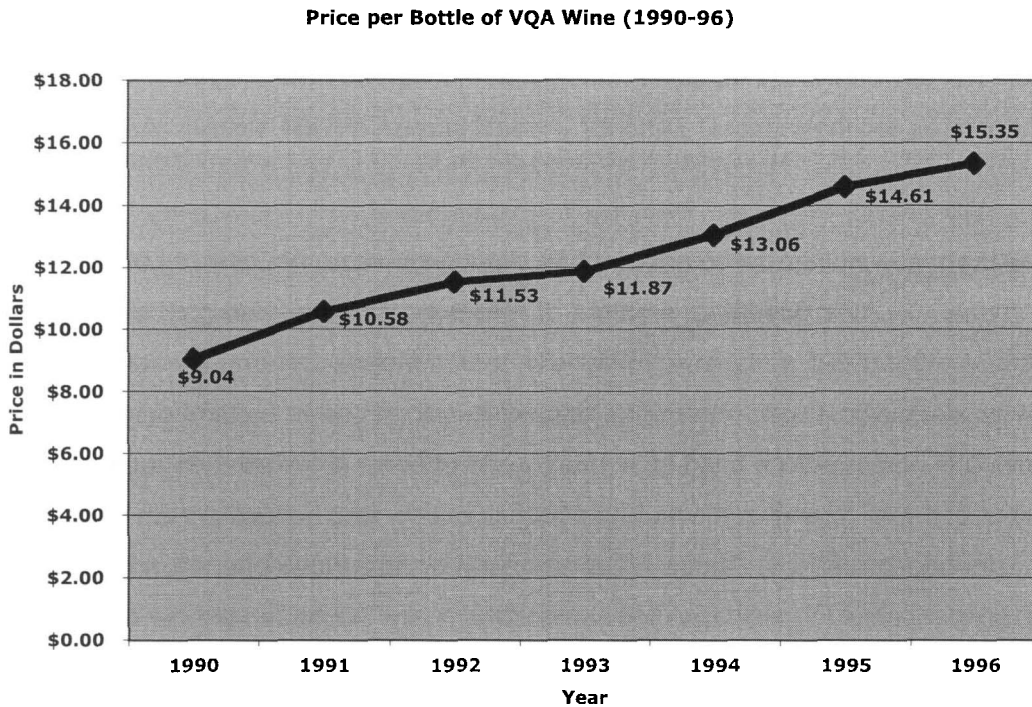
*audience*" (Small-sized winery respondent). The BCWI also began to print a newsletter and a wine route brochure in an incipient effort to develop wine based agritourism in the Okanagan Valley region.<sup>38</sup> (BCWI Meeting Minutes, December 9, 1994).

Overall, the respondents within all sectors commented positively on the early marketing efforts of the BCWI. In the mid-90s, the Board of Directors of the BCWI contracted Coopers & Lybrand Consulting to conduct an outside evaluation of past BCWI marketing programs. They found that BCWI led initiatives were successful in building awareness of, and preference for, British Columbian wines in the domestic market. In addition, they found that the VQA symbol had become associated with quality, adherence to control standards, and consistency (BCWI Annual Report, 1995/96), ultimately contributing to the rise in the price per bottle of VQA wines from 1990 to 1996 (see Figure 3-5).

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<sup>38</sup> The 1995 Wine Route brochure had a distribution of 50,000 (BCWI Meeting Minutes, July 5, 1995).

**Figure 3-5**



**Source:** BCWI Annual Reports, 1991-96

**Notes:** Includes data from up to 6 non-Okanagan based firms.

The export of wines to other provinces within Canada was never a primary focus of the early BCWI marketing strategy. No respondents mentioned inter-provincial trade as being important at the time to either the association or their firms' immediate goals. The 1993 BCWI Annual Report mentions that by 1992 the Alberta Liquor Distribution Board listed British Columbian wines, and the BCWI did work with *Canada a la Carte*, a national food and wine promotion in many larger Canadian cities. Yet respondents spoke of British Columbian and international marketing as the main focuses of early BCWI initiatives. Perhaps the most important development nationally occurred in 1995, when the BCWI partnered with Ontario VQA to form VQA Canada (under the umbrella of the Canadian Wine Institute) with the goal of marketing wines across Canada.

Although the primary focus of BCWI marketing strategies was the premium B.C. market, the association acted under the assumption that the expansion of sales within the province would become exceedingly difficult (BCWI Annual Report, 1992). This view was based on a variety of reasons. First, the world's supply of premium quality wines was high, leaving the BCWI to fear a loss in domestic market share of its membership to

foreign competition. Secondly, the BCWI believed that the British Columbian market did not have a sufficient enough population base to support an expanding local wine industry. Moreover, the BCWI was convinced, and aggressively tried to convince its membership-at-large, that "*international recognition could be translated into acceptance in the domestic market*" (BCWI Annual Report, 1995/96; Respondents of all winery sizes).

In 1993, the BCWI, both individually and through collaboration with the NEC and CWI, began a long-term export market plan to promote members' VQA wines internationally. As one respondent notes: "*Ten years ago (circa 1992) there was a big push to bring journalists in and try the wines and go to trade shows elsewhere so that people in other centres in the world to show that we do have a wine region in Canada. And change the perception that we are in igloos and on dirt runways. We had to break through the barrier and show that we have wonderful wines*" (BCWI respondent). The association's strategy of export was manifested in the organizing of wine tastings, trade fairs, trade missions, and restaurant shows mainly in the United Kingdom.

Indeed, this plan of export to the United Kingdom initially proved marginally successful for some members of the association. An Okanagan winery won the prestigious Avery Trophy at the 1994 International Wine and Spirits Competition in the UK, resulting in worldwide exposure of the Okanagan Valley region's wine industry (BCWI Annual Report, 1994/5).

In the short-term the export program was hindered by a fundamental weakness stemming from the pull out of the industry's vineyards after the FTA. The total acreage of vinifera under cultivation, and by inference the industry's capacity for production, was small, thereby hindering the promotional efforts of the BCWI (BCWI Annual Report, 1991). The export program also failed to generate serious returns financially to all but a few "export-ready" larger firms, despite the immense amount of time and money invested by the association and its membership-at-large. This focus also made no distinction between members who were export-ready, those with a near future goal of export, and those without the production capacity and/or desire to export. It was only later in the late 1990s, that this strategy of export would further agitate portions of its organizational domain, ultimately straining the contingent *logic of membership*

relationship between the association and its smaller-sized members, and contributing to the splintering of the association.

### ***3.5 Implications for Local Industrial Development***

Prior to the signing of the FTA, the provincial government of British Columbia met with leaders in the wine industry to formulate a plan for the future. One of the key elements resulting from these collaborations was the designing of the BCWI.

Incorporated just after the signing of the FTA in 1990, the early BCWI showed many of the characteristics of a representative organization, including a lean internal structure comprised of only a government nominated Board of Directors and office in Kelowna with a small administrative staff.

External pressures resulting in changes in the business environment following the signing of the FTA forced the small, relatively homogeneous membership-at-large of the BCWI to become socially cohesive and cooperate. These firms shared the short-term goals of both initially surviving and then developing an industry based on quality wines manufactured from locally grown grapes. At this time, the membership-at-large could be characterized as having a high degree of equality and were spatially concentrated within the Okanagan Valley region. In addition, many firms within the membership-at-large believed they were legally required to join and pay dues to the association, which in turn directly contributed to its authority.

The BCWI membership-at-large volunteered on committees, which were designed to both interface with government for the procurement of funding and distributing policy advice, as well as supplying recommendations to the association's Board of Directors. As the BCWI Board of Directors was in the position to reject recommendations and as the membership-at-large had no formalized means of electing Board members, a contingent *logic of membership* relationship developed.

The early BCWI functioned as the industry's principal representative to government, and therefore received de facto access to policy makers, as well as a consistent and sizable financial resource endowment. As such, the BCWI enjoyed a strong *logic of influence* relationship, which allowed for the governance and promotion of industry. As the early BCWI was largely government financed, its membership-at-large

paid minimal dues, allowing them to accrue maximum benefits/concessions without excessive cost to or commitment from their firms. As such, industry control by the Board of Directors and this contingent *logic of exchange* relationship remained unstressed and operational.

The association initially allocated a majority of its resource endowment towards the construction of its administration and the development of markets for the distribution of its member's products. Fundamental to its marketing initiatives and local industrial development, the VQA program was adapted to educate the consumer as to the quality available, market wines, and inadvertently increase the viti-vinicultural competence of the industry. The VQA program presented the consumer with a tangible brand-mark, and successfully helped to change the previous perception of the region as being a poor quality wine producer. Regardless of its original intent, the VQA symbol became associated with and was marketed as a symbol of quality, helped lend credence and respectability to BCWI members and their products, and ultimately increased the viti- and vinicultural competence and profitability of firms within industry. As both the primary and secondary data sources show, the early VQA program contributed significantly to the competitive advantage of the BCWI membership, and in turn beneficially enhanced the overall competitiveness of the wine industry within the Okanagan Valley region. As such, this marketing program was a significant force not only in the survival of industry following the FTA, but provided many new firms with a marketable, recognized seal of quality assurance for their products, and by inference stimulated new business formation.

Early BCWI marketing initiatives concentrating on British Columbia benefited from a strong *logic of influence* relationship with government, namely de facto access to the province's liquor distribution system. The BCWI professionally orchestrated a number of in-store advertising campaigns, which increased the sales of and profitability for its members, as well as helped to establish VQA wines with the provincial consumer. As the provincial market proved economically profitable, the number of firms within and overall production of the industry increased. The BCWI attempted to expand markets by investing a great deal of time and money in developing the United Kingdom market, however such international efforts showed little financial return to the majority of its membership. The BCWI also used this strong *logic of influence* relationship to lobby for proactive policy development such as the J License (See Table 3-2), which allowed for



the sale of food and wine at the wineries. Such additional points of sale increased the potential for agritourism and created employment opportunities and generated revenue not only for the wineries, but also within parallel industries in the region. Such increases in agritourism in turn developed market interest and consumer awareness, all contributing to local development of industry. In addition, many firms then began to diversify their operations and generate additional revenue by producing and/or selling additional products (e.g. jams and cheese) at their wineries.

Of the membership of the BCWI during 1990-96, the average score given for providing their firms with a competitive advantage was "very successful".<sup>39</sup> Most respondents in all sectors feel that the association successfully achieved its original mandate as noted below:

The early BCWI was highly effective, low cost, and highly efficient (Small-sized winery respondent).

My opinion on the BCWI is that they achieved the old mandate of creating an industry in B.C., world-class wines, getting them known to the world, and that has been done (Small-sized winery respondent).

The BCWI between 1990-95 was very focused and helped to save the industry (Medium-sized winery respondent).

The BCWI did a good job in the early days. It was a more united body before the commercial wineries took a look at the industry. The BCWI was trying. There was a united feel. Good tastings, good marketing. There was still a level of corruption, but the level was not realized yet (Medium-sized winery respondent).

Outside of the BCWI, the industry continued to formally cooperate through two secondary associations. The first of these, the BCEWA, served as a forum for estate- (medium) sized wineries to discuss matters pertinent to their sector and proffer candidates for the BCWI Board of Directors to government. Overall however, this association and its membership choose to affect change in the industry under the auspices of the BCWI. The second secondary association was the OWFS, which successfully operated a number of wine festivals, thereby incrementally increasing wine

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<sup>39</sup> The average was compiled from the scoring of eight respondents during fieldwork. (see Appendix A, question #39)

based agritourism in the Okanagan. (The OWFS and the BCEWA are discussed in greater detail in sections 5.3b and 5.3c.)

By the end 1996 however, the industry had evolved into something quite different in both size and structural composition than at the signing of the FTA. As apposed to only 14 wineries, there was now a heterogeneous mix of 38, with wineries from Vancouver Island and the Fraser Valley comprising roughly 16% of the BCWI's total membership. In addition, whereas there were only three small wineries at its incorporation, by 1996 this type of winery comprised a rapidly expanding 53% of the total BCWI membership-at-large. Large wineries too began to demand more from the association, and became more involved in its leadership. Government funded adjustment and promotional monies to protect and expand the industry after the FTA ceased, causing the procuring and outlaying of funding to become a more dominant issue (BCWI Annual Report, 1995). Within the next three years, the BCWI underwent intense scrutiny by its members, stresses on/splintering of its contingent *logic of membership* and *logic of influence* relationships, lost over a quarter of its membership, and then attempted to reform and rebuild its structure from within.

## CHAPTER FOUR

### THE FRAGMENTATION OF FORMAL COOPERATION WITHIN THE BCWI

In the years immediately following the FTA agreement, firms within the Okanagan wine industry were comparatively homogenous, shared common goals, and worked cooperatively to solve collective action problems through their BIAs. As the industry began to expand however, it grew heterogeneous, bringing in a more diverse range of wineries, and thereby adding new sets of values and goals. In addition, the previous environment of survival and cooperation shifted to one of competition. With these changes, the social cohesion within the industry diminished, and an internal split along member interests, which corresponded to firm size, evolved within its BIAs. This chapter focuses on the changes in the *logic of exchange* relationships between the membership-at-large, the BCWI, and the government beginning in 1997 to explain this fragmentation and withdrawal from the BCWI of over a quarter of its membership. Particular attention is paid towards the alteration in the resource endowment of the BCWI, as well as the division within industry and struggle for control between smaller and larger firms as both catalysts for the changes in the *logic of exchange* relationships and the reduction in BCWI derived competitive advantage. This chapter is divided into sections corresponding to the finances, internal problems of the BCWI leading to a disintegration in trust, policies and programs, and lack of governance of the BCWI to explain these devolutions in the *logic of exchange* relationships. In conclusion, this chapter reviews key findings for this period, and posits a brief implication of this fragmentation on local industrial development.

#### ***4.1 Alterations in the Resource Endowment of the BCWI***

Stresses on the existing contingent *logic of membership* relationship between the membership-at-large and the BCWI initially resulted from changes in the resource endowment of the association. During this time, firms continued to be required to pay levies based on the grape tonnage processed and wines bottled. Diminishing financial support from government sources however, in combination with lower than expected

funding from members due to crop shortfalls in 1996 and 1997, resulted in the association progressively increasing levies to meet its need for larger resources and support its business activities and structural framework.

By 1998, these levies totalled \$60 per ton +GST to pay for administration and staffing in Vancouver and Kelowna, \$5 a ton for the new R&D committee, plus an additional promotion reserve of \$25 a ton+ GST.<sup>40</sup> This total fee of \$90 per ton was divided into payments for VQA wineries (\$30 a ton for administration, \$2.50 a ton for R&D, and \$25 per ton promotions reserve) and payments for growers (\$30 a ton administration, and \$2.50 a ton for R&D).<sup>41</sup> In addition, the cost of submitting a wine for a VQA tasting increased from \$25 to \$50 per submission.

Indeed, as Table 4-1 highlights, these increases resulted in the membership-at-large accruing a considerably higher percentage of BCWI administration and program costs.

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<sup>40</sup> This promotional reserve replaced the \$0.065 cents per litre levy on VQA wines sold in British Columbia.

<sup>41</sup> As was often the case with farm and estate wineries, when the winery also produced grapes, they paid the entire \$90 per ton plus GST levy (BCWI Intercommunication November 14, 1998). Also interesting to note was that wineries were required to collect all levies from the grape growers for submission to the BCWI.

Table 4-1: Total Resource Endowment of the BCWI in 2000<sup>42</sup>

<u>Source</u>	<u>Administration</u>	<u>Aim</u>	<u>Amount</u>	<u>% of Total Funding</u>
B.C. Quality Grape and Wine Development Fund	Provincial government	For marketing, a grape replant, <sup>43</sup> and a technology transfer program	\$200,000	16%
Program for Export and Market Development	Annual federal funds which were administered by VQA Canada (a sub-committee of the CWI)	Covered 45% of costs for new market development projects	\$100,000	8%
Canada Promotion Fund	The BCWI submitted annual proposals to the CWI for grant money from the federal government	General market development programs within Canada	\$40,000	3%
Miscellaneous additional funding sources			\$10,000	<1%
=28% External Funding				
Membership-at-large <sup>44</sup> (general levies)			\$620,000	50%
Membership-at-large (promotion reserve)			\$225,000	18%
Membership-at-large (R&D reserve)			\$50,000	4%
=72% from Members				

<sup>42</sup> The data for this table was taken from the BCWI Financial Plan Budget Summary of 2000.

<sup>43</sup> Grapes contracted by the wineries under the 1990 GWSAAP and no longer deemed desirable by the wineries were eligible for this program (BCWI Meeting Minutes, March 14, 1996)

<sup>44</sup> This data includes figures from 7 non-Okanagan based firms (i.e. 20% of total BCWI membership in 2000).

This evolution in the source of funding (i.e. a less percentage of money from government and a higher percentage from members), compiled with the approximately three-fold increase in levies, led many members to question more closely the value they received for their dues, how, where, and for whom association funds were being spent, and the worth of the increases in their own expenditures.

In addition, as a result of the drastic overall reduction of external funding in the mid 1990s, members in all sectors found a subsequent drop in BCWI services.

When government money disappeared, a lot of programs and promotions disappeared (Past-industry respondent).

When the government funding disappeared, we never got much (Small-sized winery respondent).

When they were spending other peoples' money, things used to be good. But the change in funding changed all that. Before they could waste money, etc. now there (*was and*) is less money (Large-sized winery respondent).

During this time, the BCWI also became internally focused, and spent a great deal of its personal resources trying to resolve internal interest aggregation problems. As noted by the BCWI, "*Structuring, recruiting, and training have kept it* (i.e. the BCWI) *challenged to meet the basic day-to-day requirements of operations and to service the needs of the Board of Directors*" (BCWI Annual Report, 1999/00). The oft-noted consensus from respondents of all winery sizes was that the internal problems of the industry distracted the BCWI from its focus, including the development and implementation of successful marketing programs, leading to a drastic reduction in BCWI derived competitive advantage (see Figure 4-1). As respondents noted,

**Respondent:** They (i.e. the BCWI) were so disorganised and there was so much delusion within the industry over the BCWI, they were badly managed and they had no marketing focus.

**Interviewer:** What was their focus then?

**Respondent:** Well there were not focused on anything. And that was when the infighting was really going on, so there were a lot of distractions. Their focus was supposed to be to market B.C. wines. That never changed and that should never change. They had all these side issues (Medium-sized winery respondent).

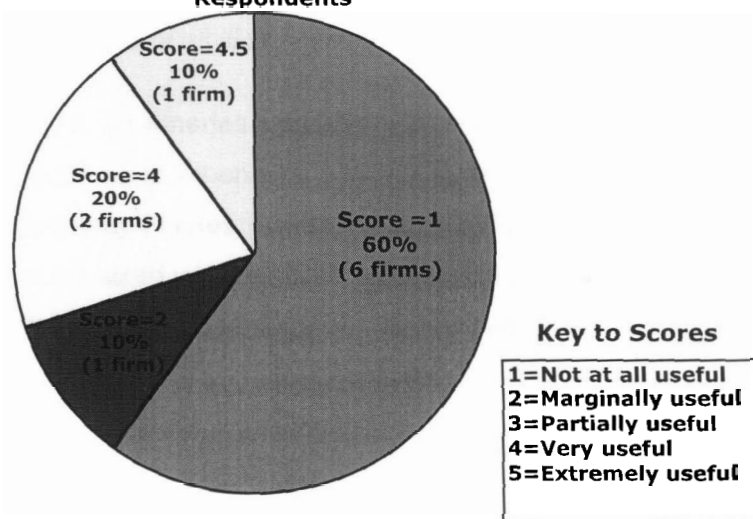
Between 1995 and 2000 they totally missed the mark. Their committees had become less effective cause their wasn't any money to go around, everybody was squabbling about if we spend \$10,000 on brochures and who is included in it (Medium-sized winery respondent).

In response, the BCWI shifted the blame for their limited effectiveness on industrial development to members.

We spent more time arguing about wine standards and trying to appease what I call the dissidents. We spent way more reserves in manpower and money that could have been used to develop the industry (BCWI respondent).

**Figure 4-1**

**Competitive Advantage of BCWI between 1997-2000 as Noted by Respondents**



**Source:** Fieldwork, 2003

**Notes:** The above scores were taken from the responses of ten member firms to an adaptation of question #39 in Appendix A.

As the fees continued to increase and member obligations to the association became more formalized, many wineries, particularly small-sized wineries, began to

withhold levy payments (BCWI Meeting Minutes, March 14, 1996; BCWI Meeting Minutes, February 20, 1998; Small-sized winery respondents).<sup>45</sup>

## **4.2 Internal Problems of the BCWI and the Loss of Trust**

### **4.2a Changes in the Demographics of the Industry**

The composition of the membership of the BCWI changed after its incorporation. Although over 98% of processed grape production occurred in the Okanagan Valley region, 20% of its membership were now located in other parts of the province, further stretching the associations limited finances (BCWI Annual Report, 1998/99). During this time a number of medium-sized wineries were taken over by a larger winery and/or increased their production to become larger wineries, changing the internal dynamics of the industry and the BCWI. In addition, the larger wineries attempted to increase their market-share in both the premium domestic and export markets, and as such, acquired local vineyards and/or began buying locally grown grapes with the idea of getting wines awarded as VQA (Respondents of all winery sizes).

By 1995, medium-sized wineries were the highest levy payers at approximately \$165,000, followed by large-sized wineries at \$106, 000, and the small-sized wineries at only \$15,000<sup>46</sup> (BCWI Meeting Minutes, November 20, 1996). By contrast, as Figure 4-2 shows, the number of small-sized wineries had increased to become the largest single sector and comprised the highest percentage of members within the association.

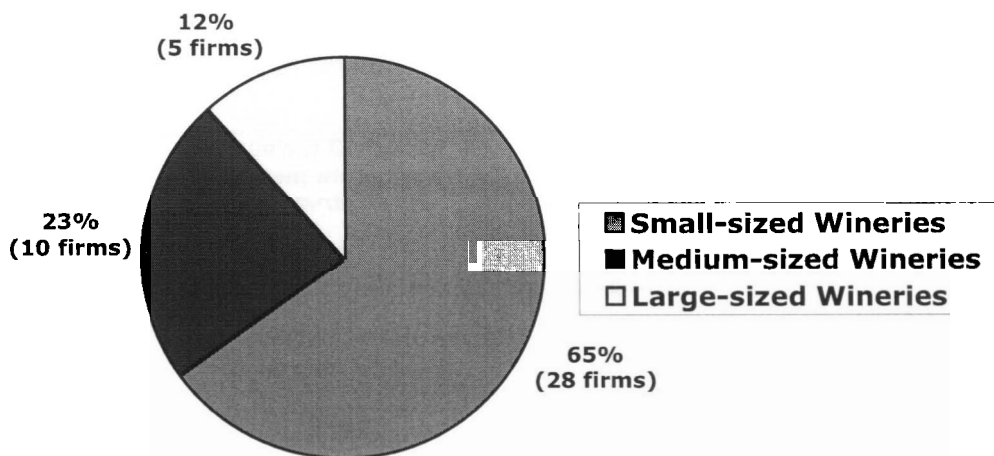
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<sup>45</sup> These firms were punished by being deemed "*members not in good standing*", and their membership on all committees with the exception of the Ad hoc Committee on a Democratic Wine Institute was revoked (BCWI Meeting Minutes, March 24, 1998).

<sup>46</sup> Figures include levies from 5 non-Okanagan based wineries.



Figure 4-2: Total BCWI Member Wineries by Sector by 1997



Source: BCWI Annual Report, 1997/98

Notes: Figure 4-2 includes firms from throughout British Columbia. More specifically, 7 small firms, 1 medium, and 1 large firm included above are not based in the Okanagan Valley region.

As firms were now required to spend more of their own money in levies, they additionally demanded more influence on the politics and direction of the association, considerably altering the previous contingent *logic of membership* relationship. As levies had increased, firms looked for direct benefits for their costs, and ways to direct the BCWI to gain competitive advantage and control for their sector (and by inference their firm), partially facilitating the fragmentation in cooperation. This diversification of firms resulted in an increase in the intensity of member interest divisions based on firm size (i.e. production). As generalized in Table 4-2, differences in staffing, product, total resource endowment, sales distribution, and opinion on policy aims were/are directly related to the production output of the firm.

**Table 4-2: Interest Divisions Based on Firm Size as of 1997**

<b>Characteristic</b>	<b>Small-Sized wineries</b>	<b>Medium-sized wineries</b>	<b>Large-sized wineries</b>
<b>Production parameter</b>	<b>Up to 45,460 litres</b>	<b>Up to 181,840 litres</b>	<b>No limit</b>
<b>Staff</b>	<b>Family; seasonal field labour (often volunteer)</b>	<b>Family; some hired office staff and field labour</b>	<b>Large operation of employed workers including office and sales staff, and field labour</b>
<b>Product</b>	<b>100% B.C.; locally grown wines from vineyards on site</b>	<b>100% B.C.; locally grown wines from vineyards on site and elsewhere in the Okanagan Valley region</b>	<b>Imported grapes/must/bulk juice; some locally grown wines from vineyards in region; other products including ciders and coolers</b>
<b>Economies of Scale/scope</b>	<b>Economies of scope</b>	<b>Economies of scope, often moving to scale</b>	<b>Economies of scale</b>
<b>Total resource endowment</b>	<b>Small</b>	<b>Medium to large</b>	<b>Large</b>
<b>Sales distribution</b>	<b>Wine-gate, restaurants, little to no export</b>	<b>Wine-gate, BCLDB, restaurants, some export</b>	<b>BCLDB, restaurants, export, wine-gate</b>
<b>Wine standards</b>	<b>Not wanted, fear of costs and little need</b>	<b>Usually wanted, occasionally needed</b>	<b>Needed</b>

Source: Fieldwork, 2003

The BCWI was unable to accommodate the greater complexity of interest aggregation, and in particular the interests of the small wineries. As explained by small-sized winery respondents, a perceived inequitable power representation resulted from an association seemingly controlled by larger wineries and their interests. The following eleven quotes, all from small wineries, illustrate this concern.

We joined the BCWI when we got our license it was a requirement. Then we just bailed. After we got f\*\*\*ed enough times. And we were not alone; we probably would not have done it ourselves. That everybody was doing a double look and saying that hey we have got this representative and he goes to the meeting. And like they all have talked about this, pushed some weird very expensive program which will help them and not help us at all and it was all rubber stamped (Small-sized winery respondent).

The big thing is control, the big guys trying to control the industry. Make it harder for the little guy to survive. Whether they did that purposely or it just happened to be that way from what they did to improve the industry I don't know (Small-sized winery respondent).

When you are a large winery with 100,000 cases and you are competing against a quality market. And so you don't want to see the industry going

into a cottage industry or focusing on a cottage industry (Small-sized winery respondent)

We were not in the gang and the big boys screwed the hell out of us. We wanted to join the VQA program but they did not recognize us, as we were not in the gang. They had nothing for us (Small-sized winery respondent).

I was on a BCWI marketing committee but still felt I could not do anything (Small-sized winery respondent).

The whole BCWI scene changed between 1998/99. The big guys began to try to keep the small guys out. The big guys were never committed to quality wine from B.C. grapes. Rather they were based on price rather than quality (Small-sized winery respondent).

It is not a democratic body and not transparent to industry. They could declare levies without being transparent. Taxation without representation. The BCWI is marketing tool and a tool of exclusion. They (*i.e. the large wineries*) do not want the pie to be divided anymore. It is an elitist situation and they try to lock out the newbie's. There is dishonesty going on. Not a fair or unbiased process. Towards the end of my BCWI membership people were angry and tried to change the structure, didn't work, so we left. The government had no choice, they granted us leave, if they would have shut us down then and there would have been bad press. The system may have worked except that the growers grew for the big guys (Small-sized winery respondent).

BCWI lied to me (Small-sized winery respondent).

The BCWI screwed me (Small-sized winery respondent).

They (*implied intentionally*) left me off the map (Small-sized winery respondent).

There have been too many mistakes to be just mistakes (Small-sized winery respondent).

Overall, such perceived biases in equality within the association developed into a profound mistrust of the overall BCWI leadership, operations, and aims. These feelings of mistrust were expressed predominantly by small and some medium-sized firms. On the other hand, large and other medium-sized firms, although acknowledging the accusations of corruption and ineffectiveness within the BCWI, continued to support the association, expressed apathy or aloofness towards the circumstances surrounding the

fragmentation, and/or simply accused the smaller “*poor quality producing*” dissident wineries for the break in cooperation (Large and medium-sized winery respondents).

#### **4.2b Administrative Failures**

During this time the BCWI continued to share offices with the ABCGG in Kelowna, although now incurring a higher portion of the total costs, and kept an additional office and paid staff in Vancouver. This dual location of administration proved problematic as it led to the “*duplication of the work and lack of communication between staff members*” (BCWI Meeting Minutes, December 11, 1997). In addition, as noted in the meeting minutes of the BCWI and by respondents of all winery sizes, the association had a great deal of trouble maintaining accurate and current financial records. This resulted in the Board of Directors making “*decisions based on inadequate or non-existent information*”. To compound the problem, it was found that staff did not “*have a clear understanding of which expenses quality for which program and therefore expenses shuffle from one program to another with no clear definitive reason*” (BCWI Meeting Minutes, December, 11, 1997). Overall, these failures further limited the ability of the association to solve its internal problems.

#### **4.2c Board of Directors' Biases**

By 1998, the BCWI was administered by a government appointed Board of Directors comprised of two major winery representatives, two estate winery representatives, two farm winery representatives, two independent grape growers representatives, a private sector representative, a founding (non-voting) chair, and a non-voting representative from the BCMAFF (BCWI Annual Report, 1997/98). While there nominally appeared to be equal representation of industry sectors amongst the members of the Board, respondents noted an inherent bias towards and control by the larger wineries within the internal structure of the association.

Sometimes the make-up of the board appears (-ed) to be weighted in favour of the large wineries. Because you have two independent growers on the board, they may be under contract to a larger winery, so they have the interest of the larger winery...also (sic) firm X (i.e. a large firm) owns many medium sized wineries, if these medium size wineries are on the board, we go 'wait a minute', (sic) firm X has two seats, when they really should only have one person up there (Medium-sized winery respondent).

The Board of Directors additionally did “*not appear to have the industry’s trust*” (BCWI Meeting Minutes, December 11, 1997). As respondents indicated, many small-sized winery members neither recognized their interests in association policy, nor felt that were capable of influencing that policy. Indeed as respondents noted,

The way the BCWI was structured was we were levy payers, we were taxed, and we had no say. The government appointed members. So when you read the Wine Act, it refers to BCWI members, well they are the appointed members (*i.e. Board of Directors*) by government. All we did was pay them money. We had no say in the way it was run; we had no say in how money was spent (ABCW respondent).

BCWI was totally autocratic. Before there was no opportunity for votes to be taken. Only the board voted. The BCWI needs to be democratic...Economic advantages are given to one group over another (Small-sized winery respondent).

Adding to the animosity and disenfranchisement of members, many firms felt the Board of Directors (*i.e. the BCWI seat of power*) was internally both corrupt and biased in favour of the larger volume wineries. This position is expressed in the opinions of the following eleven respondents.

The BCWI was known for meetings before the meetings (Small-sized winery respondent).

What we really cared about was that there were a lot of back room deals with the bigger players, and we didn’t want to be put out of business (Small-sized winery respondent).

There were lots of problems with spending, and no receipts, and the claiming of invoices twice (Small-sized winery respondent).

We left the BCWI not because of their poor views, but because of the way it was run, who was running it (certain individuals) and what was being represented (Small-sized winery respondent).

I was the first to leave and didn’t lose anything. I joined as it was the organization for industry. Its mandate was reasonable, the mandate has not officially changed, but the directors were ignoring it (Small-sized winery respondents).

The BCWI and VQA guys and Board of Directors were all the same guys so whatever VQA marketing agenda they wanted to push for suddenly became part of the agenda for the BCWI. So there was no arms length,

no independent body, no third party, no nothing. It was all the same guys (Small-sized winery respondent).

There was a meeting to keep all the people in the BCWI. The Board looked at all the changes and picked and chose what they wanted. People were risking their licenses, and they tried to put us out of business (Small-sized winery respondent).

I was on the Board of Directors when the changes were occurring. Even though active and in position we did not know where the dollars were going. There was also no value for dollars, they would take your money and do an export program to England which costed \$300,000. Wine writers would also be paid to write articles only for the large wineries (Small-sized winery respondent).

I think the BCWI at the start had a certain amount of arrogance. They did things and were heavy handed. The worst part about it was their process. They really did not try to facilitate having meetings where there was open dialogue and listening to people, finding out what the issues were, making sure for example that the grape growers issues were taken care of or the farm gates were getting their fair representation. They were not addressing that, not even setting up quarterly or bi-monthly meetings (Medium-sized winery respondent).

The government was irresponsible. BCWI legislative was an arm of government. BCWI had financial problems with the way money was spent and no accountability (Medium-sized winery respondent).

They (*i.e. the Board of Directors*) took suggestions... but not from the smaller wineries. They choose people who effectively pushed the agenda of the larger wineries, who were very close to the larger wineries, and they were not effectively representing the small wineries...and they did not meet with small wineries to find out what their position was (ABCW respondent).

As the Board of Directors comprised both the executive and legislative of the BCWI, these beliefs of the small wineries correlate directly with their loss of trust in the association. As such, this concern for fair governance, combined with the increase in levies, placed additional stresses on the contingent *logic of membership*.

#### **4.2d The Introduction of a Weighted Vote**

As the *logic of membership* relationship between the BCWI and the smaller wineries of its membership declined, the association attempted to rectify these troubles by hiring a general manager in 1998, and by working in conjunction with its membership, it sought to move to a more democratic legislative and executive. The BCWI

commissioned the Ad hoc Committee for a Democratic Wine Institute to set up procedures for an elected Board of Directors and voting procedures at General Annual Meetings (Final Report of the Ad hoc Democratic Wine Institute, April 3, 1998). It ultimately held an election for its first industry elected Board of Directors in the fall of 1999. This new ten member Board comprised eight elected directors (two large, two medium, and two small wineries representatives plus two grape grower representatives), and two non-voting BCMAFF appointed directors.

While the democratically elected Board of Directors was in principle meant to solve many of the inequitable representation problems of and ease tensions within the BCWI, it did not. In constructing its election guidelines for the Board of Directors and industry-wide voting procedures for more important resolutions at its General Meetings, the BCWI introduced a two-stage voting process. This meant that under normal voting circumstances each member would cast one vote. After this initial ballot was tabulated, and the primary decision had been reached however, a coalition of three members could request a weighted re-vote based on dues paid.<sup>47</sup> This approach ultimately bestowed power on the higher levy payers (i.e. the larger wineries) (Concordance of Bylaws prepared for the GM, March 15, 2000; Small-sized winery respondents). While the BCWI argued that *“the reality of the tonnage levy is that large wineries pay more”*, many smaller-sized wineries felt that this 2-stage voting process would ensure that the BCWI would become (remain) *“a vehicle for exclusively promoting the interests of the large wineries, eliminating any incentive for small or medium sized wineries to participate in the affairs of the BCWI”* (Concordance of Bylaws prepared for the GM, March 15, 2000).

#### **4.2e Irrelevant Committees**

By 1997, problems had also developed within BCWI committee structures, including the duplication of work in some committees and irrelevant work in others (Small-sized winery respondent; BCWI Meeting Minutes, January 10, 1997). There was also a perception, as the “member composition” row of Table 3-2 illustrates *“that committees were stacked”* in favour of the larger wineries. Respondents also pointed out that while the advice of some committees was rubber stamped by the Board of

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<sup>47</sup> That is, one vote for every \$1000 paid in levies with a cap at 10% of the total possible votes (BCWI Meeting Minutes, March 30, 1998).

Directors, the advice from others was normally rejected, rendering the committee pointless (Small-sized winery respondents). As such, the sole institutionalized means for the membership-at-large to affect decisions of the Board of Directors was considered biased and irrelevant. Other than reducing the internal friction and ensuring membership satisfaction with the association, these committees added further stress to the *logic of membership* relationship. An outside consultant also found that there was “*some confusion regarding the role of the board, the staff, and the committees. This has lead to a second guessing and over-analysis of some issues, and frequent revisiting of others*” (BCWI Meeting Minutes, December 11, 1997; Monk, 1999).

In efforts to rectify the situation, in 1997 the Board of Directors disbanded the then current committee structure, and replaced it with Committees of Market Development, Finance, Technical, and Government Relations. The Board of Directors also nominated chairpersons for those committees and requested that those people then select the committee members. This caused considerable problems, as some BCWI members objected to the Board of Directors, perceived as being beholden to the interests of the large wineries, “*selecting chairpersons, and objected to allowing chairpersons to build their own committees*” (BCWI Meeting Minutes, December 11, 1997).

By the end of 1997, many BCWI members of all sectors, both new and old, had expressed confusion about the BCWI’s mandate, objectives, and powers of governance. There were also complaints about the high cost of levies and inequitable benefits, irregular accounting procedures, poor record keeping, inadequate taking and distribution of meeting minutes, fraud, inept staff, unsatisfactory procedures, processes, and representation on committees, and with the Board of Directors, whose decisions it was argued were both opaque and biased to certain sectors of the industry. Most importantly to understanding the fragmentation of the BCWI, there was growing animosity over the need for and value of the BCWI promoting a national wine standard, as well as the use of VQA as a cornerstone of those proposed standards (see Table 4-3) (Small-sized winery respondents; Monk, 1999).



**Table 4-3: Reasons for Leaving BCWI as Mentioned by Respondents**

<b>Reason for Leaving</b>	<b>Number of Citings</b>
<b>Disagreement with political aims (cited 6 times as being detrimental to firm survival)</b>	<b>11</b>
<b>Felt had no influence in BCWI</b>	<b>10</b>
<b>No marketing or competitive advantage</b>	<b>9</b>
<b>Problems with operation of VQA program</b>	<b>8</b>
<b>Felt ill-treated by BCWI</b>	<b>8</b>
<b>Claimed corruption within BCWI</b>	<b>7</b>
<b>High costs of membership</b>	<b>5</b>

**Source:** Fieldwork, 2003

**Notes:** The data for Table 4-3 was taken from the responses of thirteen firms. All but one of these firms was a small winery. This table includes multiple responses per firm.

### **4.3 Marketing and the Final Trigger for Fragmentation**

#### **4.3a Issues with the Vintners Quality Alliance (VQA)**

As mentioned previously, VQA had become a cornerstone in the operations of the BCWI. As early as 1994 however, "*there were concerns raised about the VQA program and security and confidentiality of the program*" (BCWI Meeting Minutes, September 1, 1994). Indeed many in the industry, particular the small wineries, expressed a number of objections with the VQA program.

The first major objection noted by respondents was with the required procedures of awarding wines as VQA, in particular the mandatory taste panel.

What has happened is that the program itself has problems, and the tasting panel screens wines going into it, can reasonably well screen the wines for defects such as hydrogen sulphide flavours, oxidation, etc. But the attempt to go one further and make a decision as to whether the wines are consistent with a stated varietal character and to make a quality judgement, that can't be done reproducibly, it's a subjective evaluation so it means that some wines go through the panel which probably on the basis of quality shouldn't have gone through. Others are turned down as they may have some perceptible flaw and yet it is not unusual for them to go to an international competition and do very well (ABWG respondent).

When we joined the industry the government said that our wine had to be tasted by the BCWI. As soon as they took that requirement away we stopped, we don't need our wines tasted (Small-sized winery respondent).

A lot of people object to the personal taste aspect to tasting. Personally I feel that the only people qualified to taste my wine and criticise it are the people paying the money. Let the market decide, not a group of competitors, cause that's who is on the tasting panel. That is a big issue...none of our clients ask, we certainly taste the wines ourselves...there are bad wines with VQA on it (Small-sized winery respondent).

The VQA is not realistically very strict and in reality not a quality assurance or even a good taste assurance (Small-sized winery respondent).

VQA means fault free, not quality. But even after a wine is tasted and passed, that is not always sure. There are some undetectable bacteria to the pallet. And the taste panel is not always accurate (Small-sized winery respondent).

Another main objection to the VQA expressed by respondents, particularly small wineries, was with the cost to the winery of participating in the program.

VQA was too expensive for a small winery. BCWI tried to change it but we were already pissed off (Small-sized winery respondent).

We stopped VQA because of the costs. And with the volume we have we don't need the marketing of VQA which is basically what it is, it's a marketing tool to say that your wines are quality (Small-sized winery respondent).

The VQA price per bottle and dues were too expensive (Small-sized winery respondent).

About VQA, the information most people get is that VQA is a quality standard, when in fact it is a marketing tool. Since we have no need to market, we sell out in ten days, it's an expensive marketing tool we have no use for (Small-sized winery respondent).

**Respondent:** There was a lot of resentment cause they tried to squash our businesses.

**Interviewer:** Who are they?

**Respondent:** Well...if you and I were Board Directors of the BCWI and Board Directors of VQA and our companies were using VQA as a huge marketing tool, then there is no differentiation. There is more to it, there is a lot of resentment but I try to maintain some kind of distance on the whole thing and say its only a marketing tool and if it helps them market their wines then God Bless 'em. Just don't try to cram it down my throat

and make me pay these levies and have my wine tested by these same guys not a lab, its completely ...(*doesn't find word*) (Small-sized winery respondent).

Opinions counter to those above do exist, and form an interesting counter-argument to the critiques expressed by many of the smaller wineries. These respondents mentioned that,

I joined to support the concept. It's a program to improve the overall quality...it's a horrible nuisance though, and its \$50 per test. Unfortunately the little guys don't see it that way. They see it as a threat to their existence, unfortunately. But the fact of the matter is they make lousy wine and by showing an example I guess our approach is if we stay in it and support it maybe some of these little guys will get with the program and get the wine improved. They don't all make lousy wine but a few do, and that all hurts everybody (Medium-sized winery respondent).

Some guys had some objections. They objected to the VQA. They thought it was all fixed, which is pure nonsense, they were making bad wine. The people who were complaining, you can look down the list, and with a few exceptions, there is not a lot of quality there (Medium-sized winery respondent).

Well it's been around for a long time so people say 'Oh its VQA'. VQA is a symbol that means it is well-made and it is fault free, true to its varietal character and that is really what that means. The consumer can buy a bottle of wine bearing the VQA logo and know that they are going to get a quality product if they don't like it, it is probably their personal taste. If the wines are not VQA than it is hit or miss (Small-sized winery respondent).

The industry is here today because of VQA. They built up the industry and pounded the pavement and on the way they stepped on some toes (Small-sized winery respondent).

#### **4.3b The Drive for a National Wine Standard**

Since its incorporation, the BCWI continued to seek control over its immediate domain by diversifying its strategic environments. Such partnerships increased the organizational complexity, the size, and the financial requirements of the association. Of these relationships, the most important politically and of the greatest impact on the Okanagan wine industry was with the Canadian Wine Institute/Canadian Vintners

Alliance.<sup>48</sup> The BCWI worked with the CWI/CVA, ABCGG, Ontario VQA, and other provincial wine associations to create a national wine standard for legislation under the Canadian General Standards Board. More importantly, smaller winery members felt this focus of legislating a national wine standard and the promotion of export markets was counter-productive to the goals of their firms.

Since the early 1990s, the BCWI had invested extensive time and money into developing the U.K. market. At this time, the levy structure of the BCWI meant that every member financially contributed to the export programs of the association, regardless of whether they actually exported. Many wineries (particularly small and some medium-sized wineries) felt this an unjust use of association funds, as they had neither the volume of wine necessary and/or the desire to export their wines internationally.

A few years ago it was a set fee for marketing for everybody based on your tonnage. It used to be one tier. Everyone was part of export. And the marketing committee would make a recommendation, which was weighted by some of the bigger guys, to the board which was weighted by some of the bigger guys (Small-sized winery respondent).

The BCWI unconvincingly tried to console its non-exporting members by arguing that exports bring attention to the industry as a whole, thereby increasing sales domestically. More importantly, many smaller wineries found the methods employed by the BCWI and its Board of Directors when conducting export programs, apparently on behalf of the whole industry, provided no benefit to their firms. As one respondent noted,

One of the issues was they took some wine over to England, and spent a lot of money to go market B.C. wines in England. That only represents about five wineries in this whole picture. The little guys said that is crap. And then you see certain people supposedly representing the whole industry on the front page of major European newspapers pouring their wine, not representing the industry, but pouring their wine (Small-sized winery respondent).

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<sup>48</sup> In 1999, the CWI and VQA Canada merged to form the Canadian Vintners Alliance (CVA). The BCWI also began to play a more direct role in this organization by naming two members to the CVA's Board of Directors.

When the European Union began to demand a government sanctioned appellation system for entry into its markets, the BCWI (and CWI/CVA) began a more rigorous campaign to obtain those standards, and re-open access to these markets (VQA Canada, International Market Development Strategy, January 8, 1999). In addition and as discussed in chapter three of this thesis, export programs conducted in the infantile stages of the industry after the FTA were hindered by a lack of volume. To overcome this and by attempting to increase profits through the economies of scale, large and some medium-sized wineries began to expand their owned and/or contracted vineyard acreage. In doing so they further heightened the need for and the pressure on the BCWI to establish standards and develop additional markets overseas.

The first step taken by the BCWI in achieving a national standard consisted of “elevating” the existing B.C. standards as stated in the B.C. Wine Act and continuing to work with Ontario VQA to harmonize their existing standards. Although the membership of the BCWI was divided, negotiations on the national level required the association to speak in one uniform voice for all of British Columbia. This meant that the BCWI, representing the voice of the whole province, presented the nominally agreed upon standard as a basis for these inter-provincial talks. Lack of internal communication within the association, feelings of inequitable power representation in favour of the larger wineries on the Board of Directors, compounded with an increasing distaste for the VQA program, further added to the divisions within the BCWI, and stressed the association’s *logic of membership* relationship with smaller-sized members.

When the first drafts of the new B.C. standards and national standards began to filter back to the industry in the Okanagan, they stated that participation in standards would be mandatory, with all wines falling into one of three categories. The top tier was to be comprised of VQA wines, the second tier of 100% provincial (Non-VQA) wines, and the third tier would be those wines made from imported or blended grape content. Most importantly, only those wines that had gone through the VQA process (i.e. to

become tier 1), would have been able to use GIs, DVAs, varietal names, and speciality terms on their labels.<sup>49</sup>

Smaller wineries felt not only disenfranchised from an association they no longer trusted, but also became fearful of the potential for added expense of a program they neither wanted nor needed. The first complaint was that these new national standards were unnecessary and would increase the cost of doing business.

We are saying why do we need all this because we are already creating wines and selling wines that are internationally recognized and very good quality and this set of regulations isn't going to help us sell any more wine and its not going to make our wines any better and so its just looking as if the wine standards are not to our benefit (ABCW respondent).

We like standards, we have standards, and they are good standards. (*i.e. the B.C. Wine Act*) It is not a question of having standards it's a question of how ridiculous we want to burden everybody with standards, and how much it is going to cost everybody to enforce these things (Small-sized winery respondent).

Wine standards are a prickly issue. It is a big issue, but frankly it is a red herring for a lot of people. Most people are making wines to those standards and just don't want to be regulated (Medium-sized winery respondent).

If there are wine standards isn't the top tier going to be VQA only? That is what they want to do. The top winemakers in the valley would not be able to label their wines as B.C. or use Okanagan Valley unless they are top tier. To get into the program you have to buy into the program. The way they are going to structure the fees is not going to be based on volume, but based on each winery regardless of your size you're going to have to pay a fee. And they are talking about the fees being \$10,000 and on top of that is auditing fees. And we all know that when the government implements a program it is never within the cost that they say. It is always far greater cost. What ends up happening is that small producers, the ones that are actually making wines from 100% B.C. grapes, who are local, who are the agritourism, who are the true farm-gate wineries are not going to be able to participate in these standards (Small-sized winery respondent).

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<sup>49</sup>Geographical Indicators (GIs) include the use of the term 'British Columbia'. Designated Viticulture Areas (DVAs) include the labeling of wine as 'Okanagan Valley', 'Similkameen Valley', etc. Varietal names refer to the listing of the grape type used in the production of the wine. Lastly, specialty terms include 'Botrytis Affected', 'Totally Botrytis Affected', 'Late Harvest', and 'Select Late Harvest'.

For us wine standards closes access. It becomes economically unviable, non profitable, its that margin of profit, especially when you are just starting out (Small-sized winery respondent).

A second major complaint was expressed as a fear that standards would limit the use of GIs, DVAs, varietal names, and specialty terms to tier 1 VQA wines.

Here what they want to do is take ownership of the name, geographical designations, of varietals, so if you are a small producer and you don't want to pay the fees, which are going to be significant, then its going to be illegal to put B.C. wine, Okanagan Valley, Cabernet Sauvignon on your bottles (Small-sized winery respondent).

And then there is the strange vinifera and hybrid argument. Most people have moved to vinifera cause that is recognized. If they move to a wine standards act and they say you can only have these varieties to be in tier one or tier two, it has already selected your wines for certain market. It has segregated your wines for a certain market (Small-sized winery respondent).

As a result, this drive for national standards further escalated tensions in the *logic of membership* relationship between the BCWI and smaller firms within the association.

Especially the big boys basically trying to get these national standards for export. See they want the standards for export, well I don't export...and if I want to export than I will have to go through these standards. But don't make these standards for everybody just cause you want to export. So it's a little bit of a controlling interest there I think with the big wineries trying to control the industry. Because of the appellation thing they tried to change. They are saying that I cannot even say Okanagan Valley on my bottles. Because I am not VQA and I am not exporting (Small-sized winery respondent).

The BCWI Board of Directors accepted the recommendation of the BCMAFF and appointed a professional mediator to address the internal strife within the association. In 1998 the BCWI moved to an elected Board of Directors, but the situation continued to degrade until a large-scale walk out was triggered from a national standards trademark dispute in 1998. As respondents noted:

Individuals were getting ticked off. The final straw was when we heard back from East that the BCWI helped Ontario VQA trademark all the GIs and speciality terms and never told the rest of the Board (Small-sized winery respondent).

VQA Canada tried to trademark, with the knowledge of some of the BCWI board, names like Okanagan Valley, Similkameen Valley, Vancouver Island, it would have put us out of business (Small-sized winery respondent).

In 1998 people started leaving...in 1997 we had a group which tried to restructure the BCWI from internally through democracy. That was not accomplished so in 1998 we had a mass walk out. We just stopped paying dues and notified the government that we were not going to participate. It happened over a trial, an issue over the trademarking of specialty terms and geographic indicators. We had ongoing meetings through a standards committee. Which we were negotiating for B.C. wine standards, and had come close to finalizing that negotiation...within a couple days of that, the BCWI and some of their members had actually gone out and assisted in the trade marking of some of the things we were negotiating. And those trademarks had been done well before the negotiations had taken place, and they had withheld that information from us, and that they were not negotiating in good faith...there was trademark on Icewine that we were well aware of, but the board of the BCWI said that nothing more was going to take place. They set up a public meeting to say to all the wineries that this is the benefit of all wineries, but behind our backs they were doing other trademarks. We found out the Friday before the deadline for filing the appeal for the trademark was on a Monday. That is when all hell broke loose...at some point some members, those with powers, had already made decisions... we filed an appeal in federal court over trademarks and left the BCWI (ABCW respondent).

When the BCWI's Board of Directors supposedly granted VQA Canada permission to trademark GIs and speciality terms without the knowledge of the membership-at-large, many of the smaller wineries felt this act of governance a "*final act of betrayal*", and withdrew from the association. This marked the end of the *logic of exchange* relationship between the small wineries and the BCWI.

#### **4.4 The Failure of the Logic of Influence**

Between 1997-2000, and as wineries began to withdraw from the BCWI, a legal debate ensued as to whether membership in the association (and by inference the VQA program) was mandatory or optional under the law. Indeed as mentioned earlier, a number of firms initially joined and paid levies to the BCWI as they considered it their obligation under the law.<sup>50</sup> When the BCWI was founded under the B.C. Wine Act the

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<sup>50</sup> Indeed during the course of interviewing firms within the Okanagan Valley region, I found that many firms, if not most, still do not understand what is legally required of them.



industry shared common goals, and there was an implicit understanding industry-wide that firms would join the BCWI. The only true requirement as stated in the Act however, was that firms were required to “registrar” with the BCWI.<sup>51</sup> Interestingly however, is that until 2001, and the passing of Bylaw 10, there was no actual mechanical way of registering, meaning as firms noted, “*we didn’t NOT do something by not registering, no one had ever registered*”. In addition, the Act neither listed who was supposed to enforce this provision nor indicated any practical means of how that enforcement was to be conducted for ensuring industry compliance (e.g. fines, lifting of liquor license, etc.) (B.C. Wine Act, 1990).

As one respondent present at the founding of the BCWI was lead to believe:

The B.C. Wine Act empowered the BCWI to be the authority of B.C. wine, to develop monitor and enforce standards. But the enforcement mechanism, the government said, is that everything has to be listed whether it is sold through liquor store or not has to be listed through the liquor board. And if somebody is in violation, we can lift their license, and refuse to list their product. But they have not done that. As soon as we had a violation, they abandoned us (BCWI Respondent).

Alternatively stated, the *logic of influence* relationship as perceived by the BCWI was never formally legislated and/or followed through on by government. When their authority was challenged, the BCWI found it had no form of governance over or means of enforcing the compliance of industry.

Many respondents felt that this lack of a government controlled or delegated enforcement provision in the Act left the BCWI with only a modicum of control over the industry, and by inference both in governing its membership, and in establishing a British Columbian wine industry supported standard to bring to national wine standards discussions.

The BCWI was supposed to have the clout to enforce the VQA but it lost it along the way. There was (is) the problem of who is going to enforce.

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<sup>51</sup> It is interesting to note that to ensure quality production, all farm wineries were initially required to comply with B.C. Wine Standards, which included having their wines undergo a sensory analysis before being sold. In order to avoid the duplication of services and to minimize costs, the BCLCB delegated the sensory evaluation and testing to the VQA Tasting Panel. As time progressed, this process was not insisted upon by government, industry, or the BCWI, adding a number of complications in the perceived legal requirements of both firms and the association.

As there was no government will that the BCWI should enforce, it slowly slipped through the cracks (Small-sized winery respondent).

We tried to export, which except for England we failed to export wine, cause they never established standards that are legal and binding. Not a failure of only the BCWI, but also the government to back the standards (Large-sized winery respondent).

We had no ability to reinforce certain things (like all must join) this is cause of today's problems (Past-industry respondent).

## **4.5 Key Findings**

By 1997, the composition of the industry had changed dramatically since the incorporation of the BCWI. As the association developed, it failed to adapt to the overall reduction in its resource endowment and the increasing diversity of its membership. The initial problem afflicting the BCWI during this time period resulted from a lack of regular funding. As the association diversified and increased its internal structure, administration, and activities, it was forced to drastically increase its membership levies. Simultaneously, funding from government was diminished, and crop shortages further reduced resources drawn internally from its membership. Whereas the increase in levies resulted in a more critical evaluation of BCWI activities by its membership, a reduction in external funding further limited the operations of the association and its impact on local industrial development.

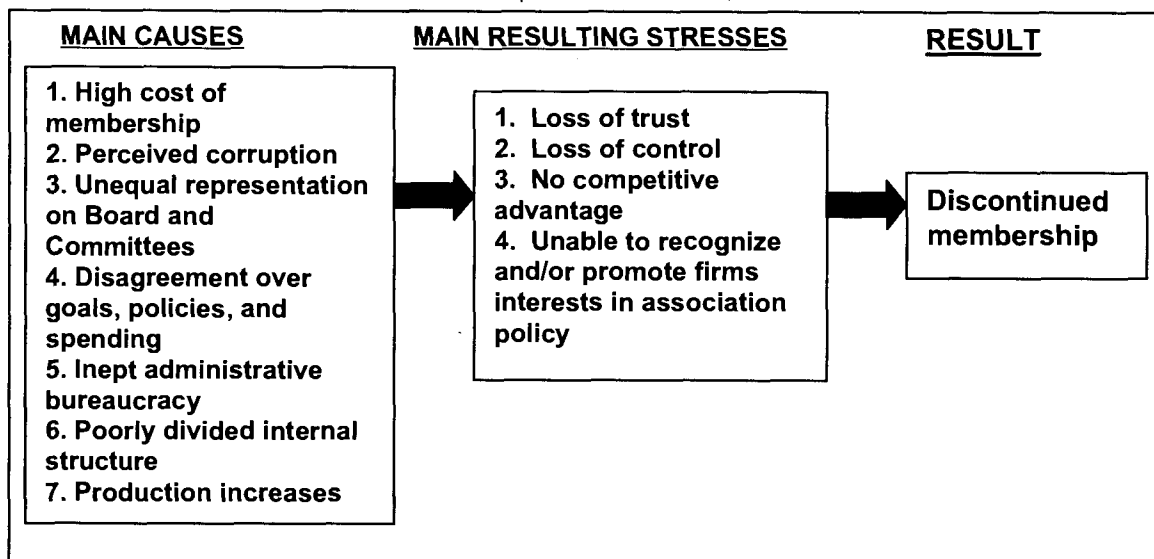
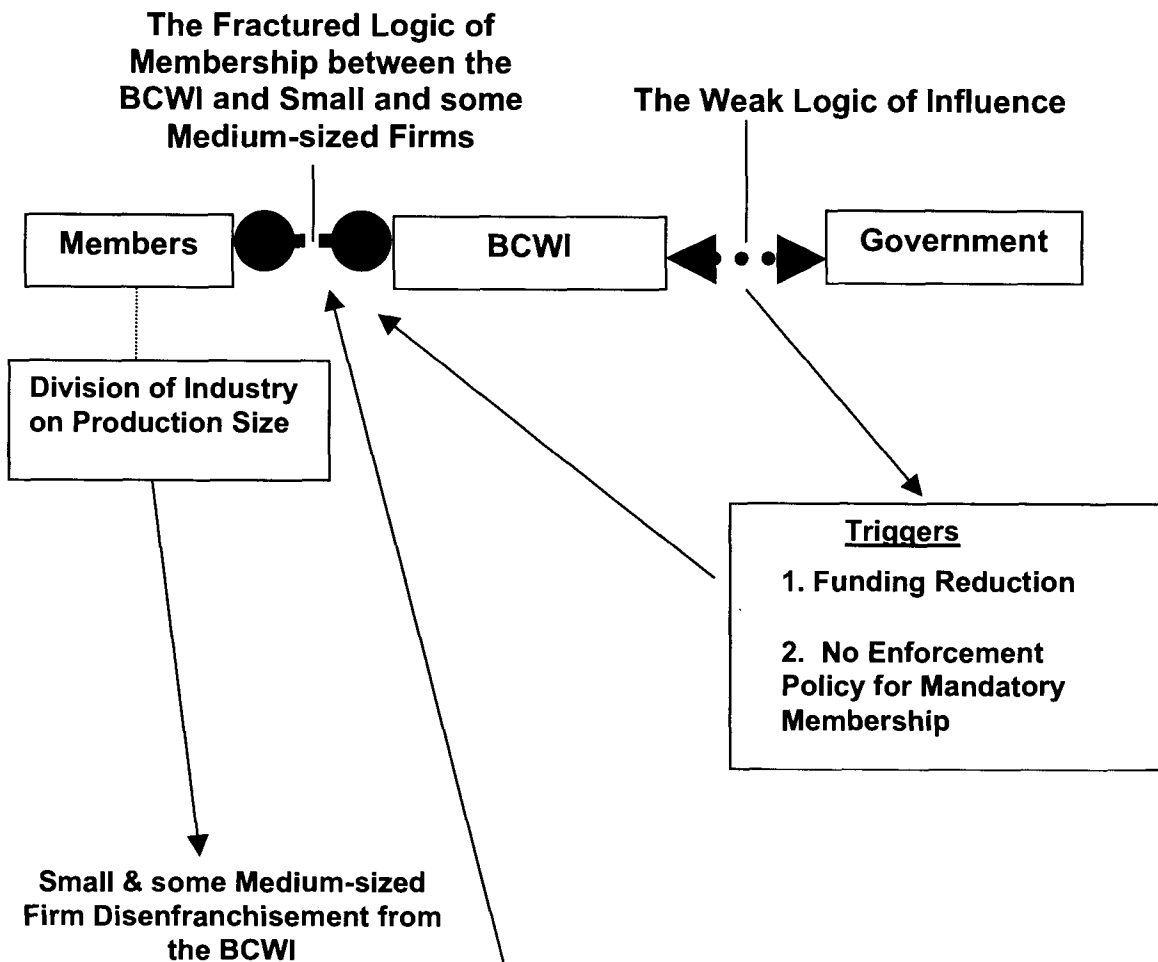
As the industry expanded in size and production, membership in the association dramatically changed, diminishing prior social cohesion and cooperation. As its membership diversified, the BCWI began to experience conflicts of internal heterogeneity. Firms within the industry were at different stages in their maturity, of different sizes, and pursuing different aims. As the industry grew more profitable, it also became more competitive internally, resulting in a shift of control within the BCWI to the larger wineries and their concerns. Smaller and some medium-sized firms began to fear the association policy was derived solely by the interests of other medium-sized and larger firms, and questioned the value of continued cooperation. Exasperating the problem, the processes and policies of the Board of Directors were perceived as being opaque, biased, and/or even detrimental to the survival of their firms. The structure of the association's committees was also both unorganized and unequally represented the diversity of its membership. Complicated with unequal representation on the government

appointed Board of Directors and committees, these members no longer recognized their interests within or felt they could affect association policy. Lastly, the cornerstone of BCWI marketing initiatives, the VQA program, had lost credence with a portion of the industry. As a result, a portion of membership lost trust in the BCWI.

The association's internal administrative structure and subdivision of labour was unfit to deal with this adversity, thereby contributing to the internal crisis. According to members, BCWI staff were unsure of funding procedures, meeting minutes were considered inadequate, work conducted from two locations led to the duplication of efforts, and the collection and dissemination of industry information was considered by both slow and selective. In short, poor internal communication further hindered the operation of the association.

To counter these problems the BCWI and its members implemented a democratic voting process for electing its Board of Directors and deciding larger and more important issues at a General Annual Meeting. However, the tiered voting procedure in favour of the larger levy payers continued to upset smaller and medium sized wineries. After the BCWI and its membership unsuccessfully tried to rectify the concerns of its membership, the contingent *logic of membership* relationship between smaller and some medium-sized wineries and the BCWI splintered, and the association lost a quarter of its previous membership. When members began to leave the association, the BCWI found it did not have a strong *logic of influence* relationship with government, and as such had no power to enforce governance. The provincial government neither controlled nor delegated to the BCWI any means of enforcing its mandate. Figure 4-3 summarizes these various triggers leading to the fragmentation of the *logic of exchange* relationship between the members, BCWI, and government.

**Figure 4-3: Changes in the Logic of Exchange Relationship**



During this time of fragmentation, extensive BCWI finances and manpower were used in the reorganization of the association. As a result, the quality and quantity of marketing initiatives and programs diminished considerably. Following this fragmentation, the BCWI streamlined its internal structure to both function with minimal funding and better include the interests of each sector of its membership. As the next chapter describes however, the problem of troubled *logic of exchange* relationships continued, and the association still struggles to determine what its role will be in the development and promotion of the industry. As such, many firms have sought to solve their collection action problems and gain competitive advantage in a number of increasingly prominent secondary associations.

## CHAPTER FIVE

### AFTER THE FRAGMENTATION: THE RESTRUCTURING OF BIAS

Since the splintering of the *logic of membership* relationship and the departure of many small firms from the BCWI, the association has continued to struggle with its resource endowment, a mistrust of its motives within industry, and the construction of a focus acceptable to all sectors of its membership. As such, the BCWI from 1999-2003 has arguably devolved from a control organization to a representative one, and no longer influences the direction of the industry to the same degree as between 1990-96. Indeed, since the fragmentation of industry, the organization and operations of BIAs within the Okanagan Valley region have undergone a tremendous evolution. To understand how these changes have impacted local industrial development, this chapter is divided into four main sections. The first section analyzes the rise in the production and provision of both excludable and, to a lesser extent, non-excludable selective goods by the BCWI since its fragmentation, as these goods now comprise the vast majority of BCWI outputs, and ironically now attract new small-sized wineries. The second section examines the reduction of the influence on and control over the industry of the BCWI as the association arguably devolves from a more of a control to a representative organization. Section three highlights the increasingly prominent role of secondary associations since the fragmentation of industry. In particular, the role of the ABCW and the OWFS in helping to solve collective action problems for the industry and providing their members with competitive advantages in the market place is described. Finally, section four concludes with key findings and implications for local industrial development.

## 5.1 Selective Goods: VQA, VQA Stores, Marketing, and R&D

Since the late 1990s, the BCWI has had a slight increase in membership, totalling 51 wineries in 2003 (i.e. 58% of the total number of firms within industry).<sup>52</sup> This is not a result of firms returning to the association, but rather a growing number of new, perhaps ironically, small firms within the industry who have voluntarily joined the association. As identified in Table 5-1, the top three reasons given by respondents for their firm joining the BCWI (or continuing membership in the case of new ownership) between 1999-2003 was for general marketing and selective goods. The goal of this section of the thesis is to both define these selective goods, and explain their role in providing a modicum of competitive advantage to the membership of the BCWI.

**Table 5-1: Motivations for Joining the BCWI (1999-2003)**

REASONS	SMALL WINERIES	MEDIUM WINERIES	TOTAL
Generic marketing	6	3	9
VQA equals quality to consumer/legitimacy to winery	6	1	7
VQA stores	6	0	6
Network with other firms	4	0	4
Support for a form of industry quality control	2	1	3
Industry information	2	1	3
Social/historical reasons	2	0	2
Belief in ideal of cooperation	2	0	2
Purchasing benefits	1	1	2

**Source:** Fieldwork, 2003

**Notes:** The data for this table is derived from the responses of fifteen firms. Multiple counting was used in the tabulation of firms' responses. There were no new large firms that joined the BCWI during this timeframe.

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<sup>52</sup> Indeed, the BCWI estimates that its members still comprise over 90% of wine produced and/or bottled in the province. It is important to note however, that this figure includes wine produced from imported grapes, bulk juices, and concentrate (i.e. the large wineries). It is also interesting to note that the association includes approximately 72% of firms within the Okanagan Valley region that fall under its mandate (i.e. organizational domain).

## 5.1a Vintners Quality Alliance (VQA)

As BCWI's operating budget has declined, its outputs (i.e. effective marketing programs, lobbying for, and representation of members) have become ever more limited. In part due to a weak *logic of influence* relationship and the resulting perceived lack of governance, and in part due to a fragmented *logic of membership* relationship with smaller wineries, the VQA program has evolved into an excludable and "self regulatory" selective marketing good for BCWI members. As such, the VQA program is no longer universally accepted within industry as an appellation control. This partially limits the BCWI's effectiveness in its continued promotion of VQA as a platform for a national wine standard.

Nonetheless, many respondents, especially larger wineries and new smaller wineries, support (or simply use) the VQA program to legitimize their wines with consumers and bring recognition to their firms.

VQA sales and VQA stores bring brand awareness (Small-sized winery respondent).

VQA is very important for us. What the BCWI does now does not matter as long as they don't screw up the VQA program (Large-sized winery respondent).

We joined the VQA program as it provided legitimacy for a new winery (Small-sized winery respondent).

Distribution into the license and the speciality wine shops needed to have the VQA we thought, and the wines needed to have the recognition because it was a brand new name as well (Small-sized winery respondent).

I joined VQA for brand recognition. It's quality assurance for the customer (Small-sized winery respondent).

We have a large Icewine production, and without VQA I cannot sell Icewine. If that were not to be, I am not sure I would still be a member of the Wine Institute (Small-sized winery respondent).

We believe the VQA symbol represents quality to the consumer. The consumer is not fully educated yet with the quality of the Canadian wine scene and the VQA brings accreditation (Medium-sized winery respondent).



I joined VQA as it is important to customers. Customers think VQA equals quality (Medium-sized winery respondent).

VQA is useful cause we are not at the very small size that we can survive on just selling 1000 cases just out of the wine shop (Medium-sized respondent).

Other BCWI members, although using VQA, are pessimistic about the program.

VQA is purely a marketing tool...VQA members are of two types: 1) small wineries which can't sell their wine anywhere else 2) large wineries which make average wine. So why associate with either of them (Small-sized winery respondent)?

The VQA panel is bad. I heard stories from other wineries that say...my wine didn't get VQA. So I sent in an old wine with the new label and got VQA. There are always ways to get VQA (Small-sized winery respondent).

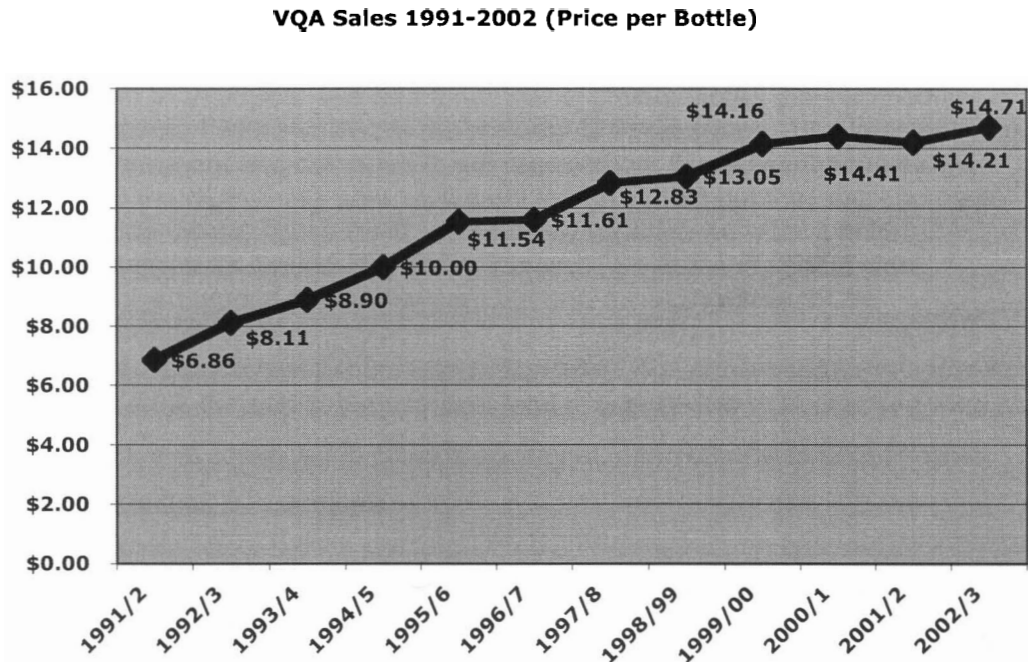
And we also run the risk of alienating customers. There are VQA wines out there that are not high quality. So it's starting to lose its credibility as a label, so what might happen is they move to wine standards and degrade the recognition of B.C. wines as being a quality product (Small-sized winery respondent).

Another winery that recently left the BCWI noted,

We were initially VQA, but VQA no longer stood for anything. It is a marketing tool. We tasted VQA wines and found no quality and didn't want to be associated (Small-sized winery respondent).

It is interesting to note that resulting in part from a rise in the vini- and viticultural capacity of the industry, and in part due to the marketing of the VQA program as a seal of quality, the price per bottle of VQA wine, despite industry conflict, continues to increase, enhancing its value as an selective good (see Figure 5-1).

Figure 5-1



**Source:** BCWI Annual Report, 2002/3

**Notes:** Figure 5-1 includes data from non-Okanagan based firms.

### 5.1b VQA Wine Stores

The one new major marketing direction taken by the BCWI during this period was the addition of VQA wine stores. Although the BCLDB system remained the most important distributor of VQA wines during this time, the provincial government granted the renewal of rights to several wine store licenses in the late 1990s<sup>53</sup> (BCWI Annual Report, 1998/9). These wine stores are restricted to selling VQA wines for wineries on a consignment basis. The right to sell in VQA stores, like the VQA program, is available only to BCWI members and their products, and as such forms an excludable collective good. VQA wine stores are operated under contract agreements with the BCWI, and

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<sup>53</sup> These licenses were previously operated by members of the BCEWA and had expired.

allowed VQA wineries additional points of sale within the province at a beneficial reduced discount when compared with BCLDB outlets. As one respondent clarified,

Well the VQA stores, the first one has been open about six and one-half years in Penticton. This wasn't because we gained an opportunity to open VQA stores. We had a number of private stores that had been dormant; I was involved in the majority of these stores. So I kept lobbying government and managed to get reactivation, it was twenty-one stores. And the NDP finally said 'ok we will reactive them but they can't go back to one owner, cause there are so many wineries we want it to be beneficial for the industry going forward'. So those of us that were involved agreed to let it happen, but only for VQA wines (BCWI respondent).

By 2002, thirteen of the eventual total of twenty-one VQA licensed wine stores had opened, and continued to provide additional, often otherwise unobtainable, distribution outlets for members.

We sold in VQA stores just to get our product out there. Because we needed distribution for where we were selling. We were selling in restaurants and wanted people to buy it where they were...these shops are very important because they allow people to go to the restaurants where we are selling the wine, and then to go and purchase the wine locally (Small-sized winery respondent).

### **5.1c General Marketing**

As a result of the loss in funding, the BCWI has become a more limited association, and now focuses almost exclusively on the British Columbian and agritourism markets.<sup>54</sup> In efforts to increase cost effectiveness of its limited finances and so as to avoid obliging uninterested firms to participate, many of its marketing programs have also become optional "pay-to-play" programs. In addition, the BCWI has also begun to align with other industries to market cooperatively. For example, the BCWI partnered with tourist organizations such as Thompson Okanagan Tourism Association (TOTA) and the OWFS to form the Wine and Tourism Alliance. This alliance seeks to coordinate joint programs that will generate business for its respective members at reduced costs. Projects included the production of the B.C. Wine Country Guide, which

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<sup>54</sup> In 2000, expenditures on marketing were 60% within British Columbia, 20% for the rest of Canada (primarily Alberta and Ontario), and 20% for the rest of the world (BCWI Meeting Minutes, March 15, 2000).

had a copy run of 125,000 in 2001, and provided information to tourists about wine production in the region.

The BCWI also coordinates with TOTA, Tourism BC, and other local associations on the Okanagan Cultural Corridor Project (OCCP). Funded by Tourism BC, the OCCP focuses on drawing tourists to the Valley by giving prominence to the local arts, heritage, and history of the region. More importantly to the industry, it encourages wine based agritourism by placing the Okanagan wine route at the centre of its “corridor”.

The BCWI also continues to target VQA and BCLDB stores with point-of-sale materials,<sup>55</sup> however some respondents feel that there is greatly diminished actual presence than in previous years. One member, while discussing the planned privatization of the BCLDB, even questioned the need for such a focus in the then soon to be devolved system. Other members criticized the use of “*the same old tired programs*”. Overall, the general marketing of the BCWI attempts to expand wine-based tourism throughout the Okanagan Valley. As this is not member inclusive, it can be classified as a non-excludable collective good.

Internally, the BCWI remains challenged by the diverse marketing interests of its heterogeneous membership. Larger wineries, which often pay 10-20% of all BCWI revenues,<sup>56</sup> are not in favour of the new agritourism focus (Large-sized winery respondents). Small and medium-sized wineries, on the other hand, complained about the poor implementation of this focus.

The BCWI wine pourings are bad. Too much wasting of pouring free wine with no benefit to me at all. They usually do them for the wrong target, usually high profile export related out-of-towners (Small-sized winery respondent).

We tried to get highway signs. The BCWI told me ‘We tried three years ago with no response, so here is who you write to.’ she said, and handed me a post-it note with an address on it (Small-sized winery respondent).

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<sup>55</sup> The BCWI has also began using the slogan “*It’s what you bring to the table*” to advertise VQA wines.

<sup>56</sup> Interestingly, large wineries, as individual firms, now spend more on marketing than the BCWI does as an association (Large-sized winery respondents).

They have no unique selling proposition. There is also no proactive thinking, everything is ad hoc. They always change the message to the media (Medium-sized winery respondent).

In part due to a lack of BCWI marketing focus and a perceived low level of effectiveness, many firms in spatially concentrated areas, e.g. the Naramata Bench, have begun to cooperate informally through the production of advertising pamphlets designed to promote agritourism to their geographic area.<sup>57</sup>

### **5.1d Research and Development and the BCWI: A Comment**

Although formally stated in its mandate, the conducting of R&D has never been a priority of the BCWI, and its efforts have not required analysis thus far in this thesis. Nonetheless, as R&D encourages innovation, a catalyst for local industrial development, the role of BIAs in its promotion of viti- and viniculture within the Okanagan wine industry merits comment.

Overall, the basis for the development of a formal research and development program resulted from the internal crisis of the BCWI in the late 1990s. As mentioned in chapter 3 of this thesis, the levy structure of the BCWI required grape growers who sold their crops to VQA wineries to pay dues to the association. By 1999, these growers provided 22.5% of BCWI revenues, and claimed they received little value from their dues (BCWI Meeting Minutes, November 15, 1999). As one respondent noted, *"I joined as a grape-grower and then later dropped. They were not marketing on behalf of small growers. We paid for marketing but were not getting anything. We joined the BCWI because we sold grapes to a winery that was a member and had to join"*. As another respondent pointed out that during the late 1990's, *"growers held back payment and there has been legal action, cause they felt the BCWI did not represent them and do anything for them so why should they be paying these dollars into a program that the BCWI doesn't protect pricing for them, or market their fruit"*.

To appease the grape growers, the BCWI started the R&D Committee (Respondents of all winery sizes). The R&D Committee organizes workshops and seminars on viticultural practices and has conducted a variety of research projects with

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<sup>57</sup> These wineries were all members of the BCWI.

PARC, the University of British Columbia, and Simon Fraser University, often in the vineyards of its members (Respondents of all winery sizes).

Recently, the BCWI also collaborated with the Okanagan University College to develop a wine studies program. This new program includes coursework leading to certification in viticulture, wine sales and being a winery assistant. As respondents noted however, these programs are “*very very basic*”, and indeed lead only to continuing education certificates. Respondents from within the BCWI were unaware of any future additions to this program.

Overall R&D programs conducted or supported by the BCWI to this point in the history of the industry can be characterized as being for the improvement of viticulture (e.g. varietal breeding and evaluation, and canopy management) rather than viniculture, for the whole of the Okanagan Valley region rather than for any one member or geographically concentrated sub-grouping of members, and on a beginner or intermediate level (Respondents of all winery sizes). As research projects undertaken by the R&D Committee and educational programs operated by the BCWI are “*really for the overall Valley*” rather than benefiting any one firm, they are characterized as being a non-excludable collective good. Overall, the membership of the BCWI gave mixed remarks as to their success in recent years.

As far as R&D they are flailing around there. It is not being driven by industry in the true sense. I say that meaning they have a pot of money...that they are looking to spend. Rather than having a particular problem...the grape growing industry does not have a huge problem like codling moths in the apple industry, so they are looking for problems and doing R&D on things that are not really useful (Medium-sized winery respondent).

It is very successful but the problem is there is not enough dollars, I think they could be doing a lot more and be a lot more progressive (Small-sized winery respondent).

Right now the amount of dollars spend on research is very small, it should be larger but it's a new industry and people are just starting to see the benefits of having R&D (Small-sized winery respondent).

And they take dollars that the members have put in and invited very well known and respected speakers who do benefit the industry quite a bit (Small-sized winery respondent).

Table 5-2 shows that while most of the current BCWI membership receives no direct benefit or competitive advantage from this R&D agenda, the idea continues to be supported by industry. It is also interesting to note that medium and larger-sized wineries, being vertically integrated into the ownership of vineyards, and although they may send staff to the conferences, conduct all of their own site-specific R&D programs. Their attendance at BCWI supported viti- and viticultural events often serves more as a means to network informally with other firms, rather than for specific educational needs (Large and medium-sized winery respondents).

**Table 5-2: Member Opinions on BCWI R&D Programs**

RESPONSE	SMALL-SIZED WINERY	MEDIUM-SIZED WINERY	LARGE-SIZED WINERY	TOTAL
Do our own	5	1	3	9
No direct benefit	6	2	1	9
Good for industry as a whole	7	0	2	9
Use seminars and field days for networking	3	1	0	4
Useful	4	0	0	4
Have viticulture academic/experience background	2	0	0	2
Too much for higher volume producers	1	0	0	1
Marginally useful	0	1	0	1

**Source:** Fieldwork, 2003

**Notes:** Data for this table was taken from the responses of twenty firms. Double counting was used to accommodate for multiple responses in the tabulation.

## ***5.2 BCWI: From a Control to a Representative Organization***

Since the fragmentation of the Okanagan wine industry and the BCWI in the late 1990s, the BCWI has arguably devolved from more of a control to a representative organization. As was the case in chapter 3, alterations in the resource endowment of the association provide an initial insight into this phenomenon. The reduction of available funding has had a considerable curtailing effect on the overall activities of the BCWI. In response to criticisms of excessive costs during the late 1990s, the BCWI progressively reduced in the total amount of levies required for full membership in the association, with administrative levies declining to \$17.50 per short ton in 2003. The

BCWI also introduced a divided marketing levy scheme, segregated on where members would like their wines promoted geographically by the association. That is, each member winery is required to pay a basic fee of \$5 per short ton. If this member wishes to have marketing conducted on its behalf inside of British Columbia, there is an additional \$15 per short ton fee, for the rest of Canada an additional \$10 per short ton fee, and to export internationally an additional \$7.50 per short ton.

While this division of levies based on membership desire has addressed the prior member concerns of required marketing fees regardless of their desire or ability to use it, the total amount of funding now made available to the association from members has been reduced. As one respondent from the BCWI notes,

We are developing plans with a smaller budget than in the past. When they changed the tier structure on the levies, less money started coming in, because people could opt out now. We are crushing more grapes but less money is coming in (BCWI respondent).

Indeed, of its 53 Okanagan-based members in 2003, only 45% paid the additional levies for marketing in British Columbia, 22% for its marketing programs within Canada, and 31% for export (BCWI levy distribution handout as provided by member).

Respondents within the BCWI were also forthcoming on additional administrative problems resulting from the new levy system. In addition to the added bureaucratic complexities of members being allowed to pay in instalments, the staff found it *“very complex and very difficult to allocate and keep track of, because it is not a big marketing budget period. And when you spread it through difficult market channels and you spread it through (sic. many) wineries, it is hard to keep a focus. So we are looking at perhaps finding ways of improving it”* (BCWI respondent).

Following Schmitter and Streeck (1981) and Van Waarden (1992), as the membership contributes the overwhelming majority of BCWI funding, it characterizes a move of the association from a control to a representative organization.

As a result of the drastic reduction in the resource endowment and in attempts to satisfy each sector of its membership, the BCWI has also been forced to streamline its internal structure, including the closure of its Vancouver offices to consolidate its entire bureaucracy to an office in Kelowna, B.C. In addition, the committee structure was



reorganized, and with the exception of the Finance Committee, representation on all committees is now more representative of each sector of the association's membership. This reduction in staff (i.e. professionalization) and the nature of the association's 'in flux' internal structure, are again characteristics of a representative organization.

Although the BCWI now has an industry elected Board of Directors and holds ballots at General Annual Meetings, a tangible internal division of membership along firm size remains. Variances of equality within industry continue to lead to inequitable power representation within the association. In particular, and despite the efforts of the BCWI, small-sized wineries continue to express displeasure of a Board they feel is weighted in favour of the larger winery interests, further contributing to an unfavourable *logic of membership* relationship. Indeed as one respondent notes,

The BCWI's General Annual Meetings are not very useful. Everything is already decided. Sure there are votes, but they are already decided. Certain wineries have large numbers of grape growers, and they control those grape growers votes (Small-sized winery respondent).

Many members also mentioned that a representative from the BCWI had never visited their place of business, and although levy paying members, were unsure of what the BCWI actually did outside of certifying wines as VQA, and uncertain as to what the association is advocating for politically. Indeed the BCWI still suffers from communication problems with its membership, which by inference continues to impair the development of a strong *logic of membership* relationship.<sup>58</sup> In addition, the BCWI struggles to aggregate the interests of its diverse membership, and perhaps most importantly, lacks any discernable focus or stable strategic plan (see Table 5-3).

Lastly, while the BCWI continues to enjoy strong access within the government operated liquor distribution system, this *logic of influence* relationship has not included concessions to industry in terms of reduced taxation. As respondents in all sectors noted,

The mark-ups and the margins that you got back through the board got less and less to the point now where it is virtually uneconomic to sell

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<sup>58</sup> Although outside the geographic parameters of this thesis, it is interesting to note that during the time of fieldwork, eight firms from Vancouver Island withdrew in masse from the BCWI (Medium-sized winery respondent).

product through the government liquor stores (Medium-sized winery respondent).

They (*i.e. the BCWI*) don't have a big enough impact. If we sell to the liquor board and its under \$18 we lose money (Medium-sized winery respondent).

**Table 5-3: Problems with the Current BCWI as Noted by Present Members**

<b>PROBLEM</b>	<b>Small firms</b>	<b>Medium firms</b>	<b>Large firms</b>	<b>Total</b>
<b>Lack of focus</b>	5	3	4	12
<b>Failures within bureaucracy</b>	6	4	2	12
<b>BCWI goals not beneficial to firm</b>	6	0	3	9
<b>Unequal in favour of large wineries</b>	8	0	0	8
<b>Lack of sufficient marketing</b>	2	4	0	6
<b>High costs to benefits</b>	3	1	0	4
<b>No power of governance</b>	0	2	1	3
<b>Government does not support BCWI</b>	0	0	3	3
<b>Need export program</b>	0	0	1	1
<b>Poor spending</b>	1	0	0	1
<b>Unable to answer</b>	2	0	0	2

**Source:** Fieldwork, 2003

**Notes:** Data for this table was taken from twenty-seven firms. Double counting was used in the tabulation.

Most BCWI member respondents found fault with the present association in a variety of ways, showing that the BCWI continues to struggle to resolve what role it should play in industrial development.

They are just spinning their wheels (Small-sized winery respondent).

The BCWI can try more, can save more, they spend money on s\*\*t, they don't shop around, and it's not their money (Small-sized winery respondent).

My opinion on the BCWI is that they achieved the old mandate of creating an industry in B.C., world class wines, getting them know to the world, and that has been done. Now I feel that they are maybe floundering a bit in their direction. Because what they set out to do is done. I don't know where it is going to go (Small-sized winery respondent).

You know what I feel is that they achieved their mandate. There never seems to be any money that's spent where we all pay really huge levies but they have a lot of employees and its probably due to that (Small-sized winery respondent).

I feel that over the last 3-4 years the BCWI hasn't done much. They used to have great programs with the BCLCB. What they call the big ads or features, there would be 'try the white of whatever' and there would be all these dangling things, lots and lots of point-of-sale material (Small-sized winery respondent).

The BCWI has missed a lot of things. They have never been to our winery, missed the fact that we were new owners, and got the maps wrong (Small-sized winery respondent).

I guess they don't have government funding anymore so we have to do it on our own. They try their best. It would be great if some of the smaller guys got some better exposure but the reality of the situation is that the bug guys call the shots and that's it (Medium-sized winery respondent).

There were changes on the board. They moved offices around, and the BCWI is now in a state of trying to find an identity and true function (Medium-sized winery respondent).

I am not sure the BCWI has a true function anymore (Medium-sized winery respondent).

BCWI needs a second kick to find common ground (Medium-sized winery respondent).

Now the BCWI is splintering. Hard times with money, less programs, can't agree on programs, caught up in red tape (Medium-sized winery respondent).

We are not satisfied with the current state of affairs. There was a shift after the government funding stopped. There was also a shift when LB took over. The BCWI has a lot of communication problems; they have people who have no experience in the industry or with such a diverse membership. The BCWI moves ahead on programs without talking to us. We also don't agree with the current objectives. The BCWI has decided

that agritourism is an objective, well for us it is not an objective (Large-sized winery respondent).

Last year we sent them a letter saying that what we had seen in marketing was not a reasonable return on investment (Large-sized winery).

These problems are also reflected in the respondent's ratings of the degree of competitive advantage provided by the BCWI to their firms (see Table 5-4). While the scoring of competitive advantage is fairly similar among winery sizes, the total averages is drastically reduced from previous years.

**Table 5-4: Average Competitive Advantage as Noted by BCWI Member Respondents (2000-03)**

<b>MEMBER SIZE</b>	<b>Competitive Advantage</b>
<b>Small wineries</b>	<b>2.75</b>
<b>Medium wineries</b>	<b>1.5</b>
<b>Large Wineries</b>	<b>2.5</b>
<b>Total average</b>	<b>2.15</b>

**Scores based on the following scale:**

- 1. not at all successful
  - 1. marginally successful
  - 1. partially successful
  - 1. very successful
  - 1. extremely successful
- 

**Source:** Fieldwork, 2003

**Notes:** Data for this table was taken from ten small wineries, five medium-sized wineries, and three large-sized member wineries. Please see question #39 of Appendix A.

Of past BCWI members, it is interesting to note the following changes as being required as prerequisites for their rejoining of the association (see Table 5-5). This indicates the residual problems of internal interest aggregation and the continued mistrust of the BCWI and its leadership.

**Table 5-5: Prerequisites of ex-BCWI Members for Rejoining the Association**

<b>REQUIREMENT</b>	<b>NUMBER OF TIMES CITED</b>
<b>Include interests from all sectors of industry</b>	<b>6</b>
<b>Departure of a certain individual from BCWI power structure</b>	<b>4</b>
<b>Focus solely on marketing</b>	<b>1</b>
<b>Stop lobbying for national wine standards</b>	<b>1</b>
<b>Lower costs</b>	<b>1</b>
<b>Not interest in rejoining under any circumstances</b>	<b>1</b>
<b>Does not like associations</b>	<b>1</b>

**Source:** Fieldwork, 2003

**Notes:** Data for this table was taken from thirteen ex-BCWI respondents. Double counting was used in the tabulation for two firms.

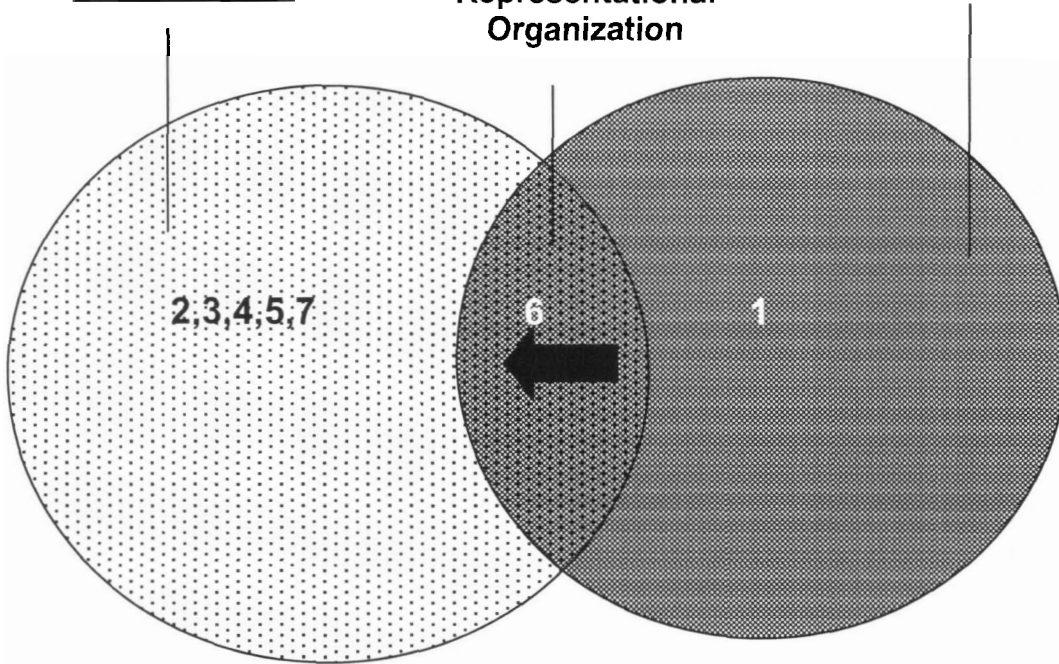
As noted by Schmitter and Streeck (1981) and Van Waarden (1992), young BIAs develop in size and scope to distance themselves from the immediate short-term interests of their membership. Between 1990-96, the BCWI can be characterized as having developed in a similar manner (see Figure 3-1). Since the late 1990s however, the BCWI has shown a progressive devolution in autonomy from its membership (see Figure 5-2). The BCWI struggles with a heterogeneous mix of firms, and is now almost entirely member funded. As the BCWI continues to streamline its operations to bring in the interests of each sector of its membership, its internal structure remains uncoordinated and in flux. During this time, the BCWI maintained many of its strategic environments, mostly through ad hoc coordination and in the pursuit of short-term goals. Although the BCWI continues to lobby for a national wine standard, it does not have the support of the entire industry, considerably limiting its efforts. The BCWI now draws members almost exclusively through and focuses its activities on the provision of selective goods. Overall, such characteristics illustrate a reverse of the BCWI to more of a representative organization.

Figure 5-2: BCWI's Movement to a Representative Organization (1997-2003)

LOGIC OF MEMBERSHIP-  
REPRESENTATIVE  
ORGANIZATION

In Flux Movement  
from a Control to a  
Representational  
Organization

LOGIC OF INFLUENCE-  
CONTROL ORGANIZATION



1. **Domain/Size**- increasing number of firms with heterogeneous interests and goals
1. **Resources**-member funded
1. **Structures/Differentiation & Centralization**-fragmented, uncoordinated structures, in flux
1. **Integration into Larger Networks**-the BCWI maintained its strategic environments, although mostly ad hoc coordination
1. **Outputs**-short term strategy, limited
1. **Activities**-selective goods, interest representation for larger members
1. **Professionalization**- minimal paid professional staff, volunteer committees
1. **Degree of Autonomy**-low, little trust from membership, members continue to leave

### 5.3 Secondary Associations

Since the fragmentation of the BCWI, firms within the Okanagan wine industry have increasingly looked to secondary BIAs to solve collective action problems and gain advantages in the marketplace. More specifically, with the foundation of the numerically powerful ABCW, and the expanded festivals and marketing events of the OWFS, secondary associations now play a more influential role in the development and direction of industry. This section examines the structures, activities, and significance of each of these associations in turn, before briefly referring to the inconsequential BCEWA.

#### 5.3a Association of British Columbia Winegrowers (ABCW)

The ABCW serves as an intra-industry industry<sup>59</sup> advocacy group for land-based<sup>60</sup> wineries within British Columbia. Initially formed from the core of disenfranchised winery owners who, under the auspices of the Farm Gate Winery Association, tried to affect change within the BCWI, and then after their efforts proved unsuccessful, left the BCWI. Since that time the ABCW has grown in size and influence.<sup>61</sup> Since its incorporation, the ABCW has remained representative in operation, having no real formal structure, extensive sources of funding, marketing initiatives, or R&D (for a complete listing of ABCW goals see Appendix E). The ABCW does, however, produce a brochure with a map listing members wineries, and provides its membership with excludable collective goods such as the possibility of joint advertising, an annual tasting event, group discounts on purchasing (e.g. corks), discounted shipping rates, and the opportunity for informal networking. Despite these benefits, its membership continues to join for the access benefits accrued from a strengthening *logic of influence* relationship between the ABCW and government<sup>62</sup> (see Table 5-6).

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<sup>59</sup> It is interesting to note that the ABCW tries not to bring problems within the industry to the attention of the media, feeling that as the industry is small, it would not be to the overall benefit of British Columbian wine (ABCW respondents; small-sized winery respondents).

<sup>60</sup> Importantly, "land-based" means that a firm and all its parent companies and/or subsidiaries must produce wines from 100% B.C. grown grapes. This requirement, in effect, eliminates larger wineries from its organizational domain.

<sup>61</sup> It is interesting to note that the ABCW now includes approximately 64% of the firms in the Okanagan Valley region that fall within its mandate (i.e. organizational domain).

<sup>62</sup> Incidentally, the rise in access of the ABCW signifies the end of the de facto representational monopoly between the BCWI and government.

**Table 5-6: Reason for Joining the ABCW as Cited by Respondents**

<b>REASON FOR JOINING</b>	<b>TOTAL TIMES CITED</b>
<b>Give their firm a voice to government</b>	<b>17</b>
<b>Network with other wineries</b>	<b>15</b>
<b>Industry information</b>	<b>13</b>
<b>Industry watchdog/keep BCWI “in check”</b>	<b>9</b>
<b>Generic marketing</b>	<b>6</b>
<b>Social/historical reasons</b>	<b>6</b>
<b>Belief in ideal of cooperation</b>	<b>2</b>

**Source:** Fieldwork, 2003

**Notes:** Data for this table was taken from 26 member firms. Multiple counting was used in the tabulation.

Since its incorporation, the ABCW has been comprised of nine Board of Directors divided into four Board elected officers (i.e. a bi-annually elected Chair, a Vice-Chair, a secretary, and a treasurer), and five additional Board members. The Board of Directors was described by respondents as “*very loose in structure*”, is operated completely on a volunteer basis (including expenses), and its composition is meant to incorporate the regional and skills diversity of the membership (ABCW and small-sized winery respondents).

The ABCW is entirely member funded, costs roughly \$220<sup>63</sup> a year to join, and has an annual budget of under \$5000. The association meets every other month at a boardroom at PARC, or at the wineries of its members. For the most part, the members of the ABCW can be characterized as being small farm-gate wineries, highly active and

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<sup>63</sup> The exact amount varies from year to year depending on unforeseen expenses (e.g. paying for a member to attend a national wine standards meeting).



aware politically,<sup>64</sup> showing a great deal of trust to their Board of Directors, and sharing a high degree of solidarity with fellow ABCW members.<sup>65</sup>

As mentioned previously, the association is highly political, and has had a growing degree of success in obtaining access to both the British Columbian and to a lesser extent federal government (Respondents). Politically, the association advocates for “Truth in labelling” within the industry. That is, a wine label should accurately state details of the product inside the bottle, regardless of whether the winery subscribes to the VQA program or to any particular association. Furthermore, “Truth in labelling” asserts that DVAs, GIs, variety names, and specialty terms should not be restricted to VQA users, but rather free to all wineries that meet the criteria established in the B.C. Wine Act (ABCW and small-sized winery respondents). The ABCW also argues that national wine standards are not necessarily appropriate for all wineries within the industry, but if implemented should be conducted outside the VQA “marketing” program and its “non-scientific” taste panel. Many members spoke of the successes of the ABCW in educating the government as to their concerns, and protecting both their business and their rights in the marketplace.

As it has developed a growing *logic of influence* relationship with government resulting in increases in access, the ABCW unintentionally serves as a counterbalance to the political actions of the BCWI. Indeed, although the ABCW does not represent a large volume of the wine produced within the Okanagan Valley region, it now incorporates 41 firms, providing both a collective political blockage of the province joining a national wine standard, as well as a formable overall political voice.

Other respondents describe the association as an “*industry watchdog*” that both “*keeps the BCWI honest*” and provides recognition and a necessary voice for smaller wineries (Small-sized winery respondents). As respondents noted:

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<sup>64</sup> Of the firms interviewed who responded clearly to the question, 14 can be rated as highly active in the association, 10 whose activity level was low, and 2 as medium (see Appendix A, question #25).

<sup>65</sup> Indeed, when speaking of the ABCW, most respondents used the pronoun “we” to describe the actions of the association. In contrast, all respondents in all sectors of the industry referred the BCWI in the third person plural.

Because your in an association you get much more public acceptance, recognition. In our case the association is representing all the members opinion. Because we are pretty much in total agreement on what the association is supposed to do for us (Small-sized winery respondent).

I joined Winegrowers when they started. There are a lot of politics. Large organizations have financial power, power of their own interest. And most of them (*i.e. members of the ABCW*) find they can create something more fair...and promote something for ourselves (Small-sized winery respondent).

We are more of an organization that was put together to protect ourselves so we would have some power to voice our opinion (Small-sized winery respondent).

The Winegrowers is a bunch of small wineries that combined to look after small wineries. It represents a voice to government that we never had before (Small-sized winery respondent).

It should be added that many ABCW members credit their continued survival as firms to the political successes of this association. Overall members rated the association as being slightly less than “very successful” in achieving their mandate.<sup>66</sup>

The association includes many outspoken members, called “*extreme*” by some within the industry, and antagonists argue that these members prevent the formation of more cooperative alliances within the industry. As the levies of the association are low, the association has also attracted some politically inactive or ambivalent members who have joined for excludable selective goods such as inclusion in the ABCW brochure and for discounted shipping rates. Some of these members have found the policies of and methods employed by the association to be excessive (see Table 5-7), and withdrawn their membership.

We were a member of the Winegrowers. There were a small clique with a private agenda and didn't want our name associated. It hurt our reputation with other wineries. At the start the ABCW had a good mandate of 100% B.C., but it got to be a private battle with the BCWI and the government, and that was the only issue they were interested in. We were not getting anything out of it so we stopped (Small-sized winery respondent).

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<sup>66</sup> The source for this information was collected from 20 firms during fieldwork in 2003. See Appendix A question #45 for details.

I joined the Winegrowers as my winemaker thought it would be a good marketing tool to get into their hidden wineries brochure, and when I read what they were doing I found that I wasn't into what they were doing, lobbying (Medium-sized winery respondent).

Was a member of Winegrowers, went to a bunch of meetings at first and then it petered out. Didn't want to be associated with a bunch of losers. They are alarmists, and hold irrelevant meetings and old grudges. There is no forgive and forget (Small-sized winery respondent).

**Respondent:** We dropped out of ABCW in protest. There are some radicals in that group. And I thought the approach to some of the issues was counterproductive. What is point of having a big fight over this stuff?

**Interviewer:** Any particular issues?

**Respondent:** Well the wine standards are one thing. Some of the smaller ones are more radical. They are really passionate about what they do, don't get me wrong. I am not saying they are totally wrong. It is just the approach sometimes. Who wants to be associated with them? The goal to me is to keep the BCWI in check. I rejoined them as I think that they have realized over the years that to be not as radical in some of their motives and statements....Be more calm, more civil. It far more productive when you work with somebody than when you work against somebody (Small-sized winery respondent).

**Table 5-7: Reasons for Leaving the ABCW as Cited by Ex-members**

<b>Reason</b>	<b>Total Citings</b>
<b>No marketing and/or competitive advantage</b>	<b>3</b>
<b>Fear of being associated with "radicals"</b>	<b>3</b>
<b>Disagreement with political aims</b>	<b>3</b>
<b>Fear of being associated with "low quality wines"</b>	<b>2</b>

**Source:** Fieldwork, 2003

**Notes:** Data for this table was taken from five respondents. Multiple counting was used in its tabulation.

It is also important to note that there is some overlap in domain between the BCWI and the ABCW, as thirteen firms within the Okanagan Valley region are members of both associations. Of these thirteen, 76% have only begun operation since 1997. As Tables 5-8 and 5-9 illustrate, firms in both associations can be characterized as being

relatively uninvolved in the activities of the associations, and whereas firms more often join the BCWI for selective goods, they usually join the ABCW for advocacy.

**Table 5-8: Activity Level of Respondents in both Associations**

Variable	ABCW	BCWI
Activity Level	High-1	High-4
	Medium-2	Medium-2
	Low-10	Low-7

**Source:** Fieldwork, 2003

**Notes:** See Appendix A #25 for question wording.

**Table 5-9: Reason Given by Respondents for Joining both Associations**

Variable	ABCW	BCWI
Reason for joining	Voice-4	Selective goods (e.g. VQA program, VQA stores, marketing)-9
	Selective goods (e.g. marketing, purchasing)-3	Belief in quality control-2
	Keep BCWI in check-3	Belief in cooperation-1
	Historical-1	Networking-1
	Networking-1	
	Industry information-1	

**Source:** Fieldwork, 2003

**Notes:** See Appendix A #24 for question wording.

At the time of fieldwork, the relationship between the ABCW and the BCWI remained stressed. The two associations have made unsuccessful efforts to hold an industry-wide vote to determine whether GIs and specialty terms should be tied to a taste panel in the larger framework of a proposed national wine standard, but no additional progress in bridging the political divide was yet discernable.

### **5.3b The Okanagan Wine Festivals Society (OWFS)**

Developed by Okanagan wineries and tourism operators prior to the signing of the FTA, the OWFS has developed into the region's premiere promoter of wine based agritourism (Respondents from all sectors). Through cooperative marketing, cooperate alliances, and regular funding from government and sponsors, the OWFS successfully organizes a number of festivals throughout the year.

After a series of internal structural changes, the OWFS presently incorporates a twelve member, annually elected Board of Directors that meets on a bi-monthly basis. This Board is divided into eight directors from the "regular members" and four from the "associate members". The membership-at-large of the OWFS is divided into regular members and associate members. Regular membership is open to any licensed winery in British Columbia, and entitles the levy payer to full voting privileges at all General Meetings. Associate membership on the other hand, is open to professionals from the agritourism industry, professionals from the commercial accommodation sector, professionals associated with the wine industry, public sector employees involved in the regulation of the winery industry (e.g. the BCLDB), and public sector employees involved with the marketing of wine tourism (e.g. TOTA, Tourism B.C., and local Chambers of Commerce).

While the OWFS had only six members at its incorporation, it now includes over 52 regular members and 40 associate members. Cost of membership is \$400 for small-sized wineries, \$600 for medium-sized wineries, and \$750 for large-sized wineries, while associate members pay \$250. Overall, membership dues contribute only 15% of the total OWFS funding, while government contributes 15% and sponsors/consumers contribute the final 70% (OWFS respondent).

Although purely a marketing association, the OWFS was not immune to the political troubles adversely affecting the industry during the late 1990s. In 1997, the Board of Directors of the OWFS decided only VQA wines would be permitted entry to consumer and tasting events and competitions at its festivals (Respondents of all winery sizes; OWFS Fax as provided by member firm, January 14, 1997). Non-VQA wineries,

which had paid their levies to the association, brought forth a lawsuit.<sup>67</sup> Following this lawsuit, the OWFS later changed its policy to “officially sanctioned consumer tastings must be made from 100% B.C. grown grapes and the wines produced according to VQA standards as verified by a sworn affidavit from the owner or winemaker” (OWFS Meeting Minutes, June 11, 1998).

Despite this concession, some small and medium-sized firm respondents continue to express concern regarding the integrity of the operations of the OWFS and its wine tasting competitions. In particular, as there are crosses of policy and directors between the OWFS and the BCWI.

Within the festival there is a wine competition that does not appear fair or credible (Medium-sized winery respondent).

The Okanagan Wine Festival is significant as it is our own turf, but there are questions of wine-ing and dining the judges, who picks up the cases from the wineries, and how he chooses from the lot which cases to take. The bylaws say to pick up but now we send in, the big wineries also might make small quantities of good wine, no point in putting lots of wine in as I always lose (Medium-sized winery respondent).

They market to the same group as the BCWI. HW’s daughter is president. I don’t send wine to the competitions, as they smell. Only the old school wins. HW and the gang, it’s like a mafia (Small-sized winery respondent).

We are not a member of the OWFS now. We were in the beginning. Then it was VQA wines only. And as people dropped out, they stopped the VQA thing. We joined again, but everything was still controlled by one or two people in the industry. Rather than fight we left again (Medium-sized winery respondent).

Nonetheless, through its marketing<sup>68</sup> and corporate alliances, the OWFS now promotes a number of seasonal wine based agritourism festivals including the Okanagan Spring Wine Festival,<sup>69</sup> the Okanagan Summer Wine Festival, the Okanagan Fall Wine Festivals, the Icewine Festival,<sup>70</sup> and the Okanagan Wine Festivals in Calgary.

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<sup>67</sup> This lawsuit was eventually settled outside of court (Small-sized winery respondent).

<sup>68</sup> This includes a web page begun in 1996, media advertising, and festival guides directed at audiences in Western Canada and the Pacific Northwest.

<sup>69</sup> The Okanagan Spring Wine Festival began in 1995.

<sup>70</sup> The Okanagan Icewine Festival began in 1998.

Overall, most respondents feel the OWFS is “*good value for the money*” and a venerable driving force in the development of agritourism within the region, particularly as it draws tourists to the region during non-peak seasons (Respondents of all winery sizes).

They are the true marketing force in the Okanagan wine industry now (Small-sized winery respondent).

They are pretty good on the surface. Good advertising across the board. They are flexible to us small guys and make concessions with deadlines etc. (Small-sized winery respondent).

We are a member. They are good. We participate in the spring and fall festivals and have an excellent relationship with them...the exposure to the consumer is good (Small-sized winery respondent).

The OWFS does a very good job. They sometimes cater to larger wineries, but we all pay the same levy (Medium-sized winery respondent).

It is a good thing for the Valley. Last year 75% of people that came to my shop did so as part of the festival (Small-sized winery respondent).

They are our local festival, we pay \$600 and they have done a great job in creating awareness for the industry (Medium-sized winery respondent).

Overall, the festivals of the OWFS continue to bring financial benefits to its membership, and as such the OWFS has developed into the industry’s most effective collective marketing program, particularly for small and medium-sized wineries.

### **5.3c The British Columbia Estate Winery Association (BCEWA)**

This nominal association has not played a significant role in the development of the Okanagan wine industry or provided its membership with any cooperatively derived competitive advantage since the FTA. Since the incorporation of the BCWI, the BCEWA has served only to support that organization, and its members have chosen to affect the industry through the BCWI rather than the under the auspices of the BCEWA. As of 2003, the BCEWA had 16 members,<sup>71</sup> all of which were also members of the BCWI. The BCEWA has minimal resources, is volunteer operated, and its focus includes

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<sup>71</sup> Only one of these members is geographically located outside the Okanagan Valley region.

neither marketing nor R&D. The BCEWA now serves simply as a medium for social networking of like-sized firms.

There is a social club component to it. As the estate wineries are by and large family owned and operated so there are issues that are unique to us, so its good to get together from time to time (Medium-sized winery respondent).

The internal structure of the BCEWA is completely voluntary, and includes a president, secretary, treasurer, and two directors at large who are each nominated, stand and then are voted in by acclamation. As the activities of the association are minimal, so to are the duties of its Board of Directors. Indeed, one of the biggest debates in recent years has been whether to disband the association. As one member noted,

The goals of the BCEWA are to sit and whine to each other, I think they don't work together. The old boys vs. the new boys, and in the BCEWA new ideas are rejected. They don't represent or put forth all estate-sized wineries. I joined them to get knowledge from a peer group that I might share information with. But I got no help from them. The BCEWA did a survey and 3 of 11 turned the survey in...they should kill the BCEWA. It has served its purpose (Medium-sized winery respondent).

Other members however, see a potential for a future revitalizing of the association, in particular as the BCWI continues to struggle internally with its focus and relationship with its membership. The strongest arguments mentioned by respondents for retaining this association are that "*as the BCWI is beholden to large wineries*", and that as "*the BCWI is breaking up*", the BCEWA, as an association with an established history, could more easily regain access to government and strengthen its *logic of influence* relationship.

#### **5.4 Implications for Local Industrial Development**

In the last two years the BCWI has been unable to distance itself from many of the problems it faced during the late 1990s. A new levy structure, while based on the marketing desires of individual members, has meant that many members have opted out of paying for BCWI marketing, resulting in lower overall funding to the BCWI from the membership. With no prominent source of external funding, the BCWI has tried to align, and with some degree of success, with other associations to jointly market at reduced



costs. In addition, many of its marketing initiatives are now “pay-to-play” programs. Overall however, both the quantity and quality of these initiatives are now greatly reduced, and the association’s contribution to the development of agritourism and the industry overall has diminished.

Whereas financial troubles have led to a drastic cut backs in operations, and the association has attempted to become more streamlined by closing its offices in Vancouver and revamping staff positions, residual problems with poor internal communication have left many members uncertain as to what the aims and initiatives of the BCWI are, and both members and non-members question the integrity of BCWI objectives and management. Smaller member wineries continue to feel the association pays more credence to the wishes of its larger levy payers and fear a national wine standard, while larger wineries, themselves often spending more on marketing than the BCWI, are not generally supportive of the new agritourism focus. As such, the *logic of membership* relationship between members and the association remains poor.

In recent years, the association has attracted new members by offering selective goods, which now include the excludable and non-excludable collective goods of the VQA program, VQA stores, general marketing, and to a lesser extent, R&D. The VQA program continues to be a cornerstone for the operations of the association, and many new firms feel that VQA gives them exposure to and recognition from consumers. Many firms, particularly new smaller wineries and large wineries, feel that being a part of the BCWI adds legitimacy in the marketplace to their firm and its products, often tied into having their wines awarded as VQA. Although respondents expressed diverse views on the nature of the VQA program, many felt that the consumer recognized VQA wines of being above a certain level of quality. The potential for using BCWI licensed VQA stores provides firms with additional retail outlets otherwise unattainable, and as such adds profitability to member firms.

Overall however, the internal and external relationships between the BCWI, its past members, and its present members remains strained, and as a result the industry remains in conflict and the role of the BCWI in the local development of industry minimized.

I could see a damper on growth is that there are so many negative issues out there, people are in conflict (Medium-sized winery respondent).

The BCWI is trying to get everybody in the fold, but we have some people who will never be in the fold no matter what (Small-sized winery respondent).

They have actually gotten the little guys to back off and join and willingly participate...I think they are in there willingly participating, but there may be a few hold outs still (Medium-sized winery respondent).

Industry is split over politics and killing us (Small-sized winery respondent).

Although the BCWI continues to be the largest association in terms of production in the industry, it struggles to find an acceptable focus and role that suits both its membership and the industry at large. As a result, firms within the industry have looked elsewhere to solve their collective action problems. In particular small firms have joined the ABCW, which provides them with a political voice and access to government, otherwise in their opinions, unobtainable. The ABCW has directly contributed to the competitiveness of its members by beneficially lobbying government with contrasting opinions to the BCWI, by serving as a means for members to network with other firms, and by disseminating information. Like the BCWI, the selective goods of the ABCW also help to improve the performance of its membership. Lastly, firms within all sectors support the actions of the OWFS, making it a leader in wine marketing within the Okanagan Valley region, and greatly contributing to the profitability of the industry. The OWFS's promotion of agritourism (with the BCWI playing a more minor, yet important role) creates a number of spin-off opportunities for the local economy, including employment possibilities in hospitality, tourism, and related sectors.

## CHAPTER SIX CONCLUSIONS

The Okanagan Valley region's wine industry has undergone a massive restructuring and a rapid expansion since the GATT ruling and the signing of the Free Trade Agreement. The firms within the industry, mainly comprise vertically integrated small and medium sized wineries, produce an array of quality wines from locally grown grapes, and generate both direct and indirect profits to the region. The Okanagan grape and wine industries now provide over an estimated 2000 jobs for the region (Okanagan/Similkameen Chamber of Commerce, 2003). The value of wine-grape production too has risen from \$4.5 million in 1990 to over \$21 million in 2001 (BCWI Annual Report, 2001/2). The objective of this research was to conceptualize the role of BIAs in facilitating cooperation in the process of local industrial development, and to empirically assess the role of BIAs in the development of the post-GATT/FTA Okanagan Valley region wine industry.

In particular, this thesis has investigated the four main BIAs within the region, specifically the BCWI, ABCW, OWFS, and the BCEWA, to determine how these associations have promoted marketing, helped to diffuse knowledge, and represented their members to government. In addition to background archival research, 53 interviews were conducted with respondents representing over 94% of the wine industry and 100% of the associations to gather qualitative data for this study.

### ***6.1 BIAs and Marketing***

Overall, the marketing programs of BIAs have played a critical role in the expansion and vitality of the industry. Since the FTA agreement, firms within the Okanagan have joined the BCWI, the OWFS, and to a much lesser extent, the ABCW to gain marketing advantages and market cooperatively. Of these BIAs, the BCWI, using the VQA program as the cornerstone of its operations, has had the most profound impact on industry. Subsidized by the provincial government, the VQA program presented the consumer with a tangible brand-mark, and successfully helped to change the perception of the region as a poor quality wine producer. Regardless of its original intent, the VQA symbol became associated with and was marketed as a symbol of

quality, and helped lend credence and respectability to BCWI members and their products. As both the primary and secondary data sources show, the VQA program significantly contributed to the competitive advantage of the BCWI membership, in particular during the initial years following the FTA.

Since the political infighting and fragmentation of the BCWI, the VQA program has evolved into a selective good. As such, it is now used by members mainly to give their firms legitimacy both within the industry and with consumers, and in fulfilling a prerequisite to obtaining access in BCWI sponsored VQA stores. These VQA stores, also offered as a selective marketing good by the BCWI, advantageously provide firms with additional retail outlets within the province otherwise unattainable.

Association sponsored marketing within British Columbia has been initiated primarily from the BCWI and OWFS. The BCWI has enjoyed de facto access within the government controlled BCLDB since the FTA. Using low-cost, professionally designed point-of-sale programs that target BCLDB outlets, the BCWI has increased member market-share and helped to establish VQA wines and wineries as a recognised and preferred label among provincial consumers. Since the fragmentation of industry however, members of the BCWI noted that it has been less ambitious in its efforts. Due to a lack of funding and in attempts to appease a larger segment of its membership, the association has limited its aims to developing the agritourism market, mostly through joint marketing initiatives.

During this time, secondary associations have also contributed to the marketing advantage of their members. The OWFS has grown in both membership and influence to become the region's premiere promoter of wine based agritourism. The OWFS's main purpose involves the operation of a number of wine festivals. In addition, while OWFS sponsored wine competitions draw both attention to the industry and additional tourists to the region, awarded wines enjoy increased exposure and marketability. Finally, the ABCW, although primarily an advocacy group, publishes an agritourism brochure highlighting each of their member wineries.

BIAs have undertaken very little to market their members' wines outside of the province of British Columbia. Although the BCWI invested a great deal of time and money in developing markets in the United Kingdom, little financial return was accrued

to the majority of its membership. Rather than promoting the industry, this focus proved counter-productive, as it ultimately contributed to the disenfranchisement of the smaller members. Inter-provincial marketing initiatives have never been the focus of any of the region's BIAs.

More generally, this study has shown that BIAs, especially in relation to marketing, can significantly impact the local industrial development of a region in several ways. BIAs provided an institutional framework that facilitated cooperation among local firms at a time when cooperation was vital to the competitive advantage and survival of industry. More specifically, BIAs increased both awareness of and markets for the Okanagan wine industry at a time of crisis. Brand marking and association guided self-regulation helped to establish the Okanagan wine industry as a premium wine producer following the FTA. Access of the BCWI to liquor distribution networks and coordinated marketing efforts within those networks helped to distribute products throughout British Columbia, educate consumers, increase sales, and provide needed exposure and legitimacy to the industry and its firms. In addition, the BCWI contributed the financial and human resources required to produce effective collective advertising allowing for greater exposure at a reduced cost to individual firms. Such group advertising was advantageously used to construct a marketable collective regional identity for a rapidly emerging industry with its intensely geographical products.

Further, this study has shown that BIAs can successfully promote a region as an agritourism destination. As the case in the Okanagan, BIAs are often best suited to provide organizational skills, networking between firms, and the making of contacts with the local tourist infrastructure in the organization of festivals, competitions, and promotions. In addition, BIAs privileged access to government policy makers allows for more proactive policy legislation and capacity building in the development of this market.

## ***6.2 BIAs and the Diffusion of Knowledge***

Of the associations in the Okanagan wine industry, only the BCWI has formally provided the industry with any advantage in research and development. Immediately after the FTA, the BCWI made little effort to increase R&D within the region. More recently, the association organizes general projects and holds viticultural conferences. As these conferences are often targeted at a lower skill level, many wineries attend for

social reasons rather than for education purposes. Most medium and larger wineries continue to conduct their own R&D programs, and smaller wineries rely both on outside and informally shared knowledge. Recent collaborative efforts with the Okanagan University College to develop educational programs to support the industry, while a start, only provide a basic and fundamental knowledge to its participants. Therefore, there remains great potential for BIAs to help create external economies with continued and more formalized ties with the viti- and vinicultural departments of local universities, and increase the capacity for innovation within the region.

More generally, as the diffusion of knowledge did not comprise a major focus of any of the BIAs within this study, few generalizations can be made. One interesting finding however, is that although most firms within the industry feel they do not receive any direct benefit from BCWI derived R&D programs, most favour (and are often willing to pay for) their existence and promotion. This supports the theory that as wine industries are often characterized by their location, quality improvement of competitors benefits other firms within the same region.

### ***6.3 BIAs and Industry Representation***

Since the FTA, the BCWI has been the association that has had the highest degree of access to all levels of government, largely resulting from a government legislated de facto representational monopoly between the association and government. Immediately following the FTA, when the industry was socially cohesive and shared more common goals, the BCWI used this access to effectively negotiate with government for funding and lobby for changes in legislation to promote wine gate sales and develop the profitable agritourism market. When the industry diversified, the BCWI followed the demands of its largest firms, which paid the greatest levies, and pursued a national wine standard. As the association represented the “sole” voice of industry, the provincial government was presented with a biased assessment of industry motives. When the BCWI fragmented, many disenfranchised members joined the ABCW, which has increasingly petitioned government with viewpoints often counter to those of the BCWI. In effect, as their members noted, the ABCW has provided a political voice that has effectively kept their firms in business.

More generally, this study has identified that the role of BIAs in industry representation is both highly variable and not without limitations. First, some associations may indeed be driven to lobby for legislation counter-productive to the development of large portions of their membership. In the case of the Okanagan wine industry, this resulted in the incorporation of a second association, with a partially overlapping organizational domain. This second association provides an example of another potential for collective action during a time of crisis. Upon leaving the BCWI, the small wineries were forced to work collectively to develop access to government to remain operational.

#### ***6.4 BIAs, Cooperation, and Policy***

This study has shown the potential for collective action following a time of crisis. With government support (both financially and legislatively), the BCWI and its programs helped to guide the industry from the major adjustments required immediately following the FTA. In this time of crisis, the necessity of cooperation subsumed both competition and control to the benefit of both firms and government. Indeed, with a socially cohesive industry and a stable source of funding, the experience of the BCWI shows that government can play a direct role in establishing and supporting the actions of a single association, and by influence greatly contribute to the local development of industry within a particular region. Moreover, when government withdrew its funding, fragmentation resulted.

As the number of firms within the Okanagan wine industry began to expand, the industry became more competitive internally, and various sectors sought control over the governance of its associations. This change in dynamics ultimately stressed cooperation among the heterogeneous sectors of industry, and limited the role of BIAs in the development of industry. In particular, the BCWI was troubled by unforeseen yet significant flaws in its mandate and management. Government funding helped the association to re-establish the industry following the FTA, but the association (and its members' expectations) in many ways were dependent on that subsidization. The problems that faced the BCWI stemmed from the unexpected withdrawal of this funding by government and the lack of a clearly identified, regularly updated, and more focused or even limited mandate that formally met the stated requirements of members. Indeed, the BCWI also failed to adapt to the rapid evolution of the industry. A regular re-

examination of association procedures and practices, voted on by members and supported by government, would have ensured a more responsive and adaptable association. In addition, at its incorporation as an association, a clear system of checks and balances on power on the BCWI should have been clearly legislated, and a government-supported means of enforcement put in place. If a government requires firms to join an association, the actions of that association must be both clear and transparent to its membership, with equal opportunity for participation from all sectors of industry included in its bylaws.

## **6.5 BIAs and Local Development**

The economic geography literature has frequently acknowledged the widespread presence of BIAs. Indeed, BIAs are routinely cited as an important 'external economy' that are principally available to localized concentrations of firms. Such localized concentrations often generate BIAs and help to facilitate cooperation.

It is not easy to assess the contributions of BIAs to local competitive advantage. This study has shown that the examination of BIA mandates and strategies, from the perspective of the *logic of exchange*, provides a useful approach, especially when combined with fieldwork-based evidence. At the same time, this study has shown that cooperation through a BIA is not a mechanical or rational construct with assured results. In the case of the Okanagan wine industry, cooperation was imposed, government provided funding, and positive results were achieved, not coincidentally during a period of crisis for the industry. Yet when this funding was removed, cooperation, while still evident, was less extensive. The oft-noted segmentation between large and small firms became a relatively (but not absolutely) important fracture line among firms in the Okanagan wine industry. In the absence of government funding, individual firms were unwilling to invest extensive time or resources into 'cooperation'. This observation suggests that at times of crisis, when resources are limited, government funding is especially essential in regions where there is no strong sense of cooperative behaviour. The evolution and fragmentation of BIAs in the Okanagan illustrates the need, potential, and limits of cooperation among firms where there is a strong sense of independence.



## 6.6 Future Research Ideas

This study has analysed the role of BIAs in local industrial development by focusing on the Okanagan wine industry. From this, I suggest two intriguing points of departure. First, other agro-industrial regions with high quality, intensely geographical components also have inputs related to nature (e.g. regionally renowned cheeses, olive oils, balsamic vinegars, wines, and Japanese *tokusanbutsu*<sup>72</sup>). A comparison between the roles of BIAs in the local industrial development of such regions would provide a more thorough understanding of the processes of collective action across cultures. Secondly, little geographically based research has been conducted on the relationships between associations with whole or partially overlapping organizational domains. In particular, studies on the local development of regions with industries with highly competitive BIAs could prove insightful in understanding the benefits and limitations of multi-lateral firm cooperation.

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<sup>72</sup> In most Japanese towns and villages, firms produce a geographically distinct agricultural product called *tokusanbutsu*, often value-added, which is then sold to tourists.

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## APPENDIX A- (MEMBER FIRM INTERVIEW SCHEDULE)

Firm Name-\_\_\_\_\_

Date-\_\_\_\_\_

Association membership in:\_\_\_\_\_

Non-membership in:\_\_\_\_\_

### A. Background Information

1. Name and status of respondent? \_\_\_\_\_
2. Origin of the firm? (brief history)
3. Employed: Dec 88: Full \_\_\_\_\_% Part \_\_\_\_\_%

Dec 2002: Full \_\_\_\_\_% Part \_\_\_\_\_%

Seasonality?

4. Ownership:

Independently owned      branch plant      other \_\_\_\_\_

5. Estimate production in litres 1988 \_\_\_\_\_ 2002 \_\_\_\_\_
6. Estimate gross sales 1988 \_\_\_\_\_ 2002 \_\_\_\_\_
7. Estimate profitability in 2002. (1-5 Scale)
8. Product mix in 1988: Vinifera ( ) Hybrid ( ) Labrusca ( ) organic ( )

icewine/late harvest ( ) liqueur ( ) sparkling ( ) other \_\_\_\_\_

2002: Vinifera ( ) Hybrid ( ) Labrusca ( ) organic ( )

icewine/late harvest ( ) liqueur ( ) sparkling ( ) other \_\_\_\_\_

9. Main grape varieties 2002: \_\_\_\_\_

Changes over time?

10. Source of grapes (%):	<u>1989</u>	<u>2002</u>
On site-	_____	_____
Okanagan-	_____	_____
B.C.-	_____	_____
Canada-	_____	_____
Elsewhere-	_____	_____

11. What would you define your market before FTA (or at founding)?

    Mass      Quality      Both      Other \_\_\_\_\_

12. How would you define your market in 2002?

    Mass      Quality      Both      Other \_\_\_\_\_

13. Marketing channel (%): 1989      2002

    Winery

    LCB

    Internet sales

    Other \_\_\_\_\_

14. Geography of sales (%): 1989      2002

    Okanagan

    B.C.

    Canada

    USA

Elsewhere

15. Percentage of production VQA?
16. What are reasons for/against joining VQA program?
  
17. How do you make your products known to customers?
18. What makes your wines unique? (price, site, vintner, innovations)
19. Identify vinicultural advances since 1989 that are important to your firm.  
(picking, fermentation, aging, bottling, and packing)
  
20. Where did you learn of these advances?
  
21. Identify viticultural advances since 1989 that are important to your firm.
22. Where did you learn of these advances?

## **B. The Role of Associations in General**

“Clarify membership in association”

23. What do you consider the main goals of the association:

Assoc 1-

Assoc 2-

24. Why did you originally join the association (s)?

25. Association/date joined/participation in/meetings/usefulness of meet. 1-5

1.

2.

3.

26. How often do you contact or are contacted by the association (s) outside of formal meetings?
27. How are your needs, values, and desires communicated to the association? (method)

**C. Association Marketing**

28. Rate and describe 3-5 important association sponsored marketing initiatives since FTA.

***INITIATIVE/ASSOC/DURATION/ADD COST TO YOU/SUCCESS 1-5 SCALE***

- 1.
- 2.
- 3.
- 4.
- 5.

29. (1-5 Scale) How successful is the association(s) in creating a positive public image for the industry? Comment.

How AND How not? (particular initiatives?)

30. How could the association improve in marketing your products?

**D. Association Shared R&D**

31. Rate and describe 3-5 association sponsored vinicultural developments that were useful to your firm. (picking, fermentation, aging, bottling, and packing)

***INITIATIVE/ASSOC./DURATION/ADD COST TO YOU/ SUCCESS 1-5 SCALE***

- 1.

- 2.
- 3.
- 4.
- 5.

32. Rate and describe 3-5 association sponsored viticultural developments that were useful to your firm.

**INITIATIVE/ASSOC./DURATION/ADD COST TO YOU/SUCCESS 1-5 SCALE**

- 1.
- 2.
- 3.
- 4.
- 5.

33. (1-5 Scale) How would you rate the association(s) in facilitating shared R&D?

Comment.

34. How could the association improve in providing your firm with knowledge?

35. Is industry representation to the provincial government important to your firm?

Comment.

36. What has the association done to represent your views to government? Rate their success for YOUR FIRM.

- 1.

- 2.
- 3.

37. How could the association improve in representing your firm? \_\_\_\_\_

Your industry? \_\_\_\_\_

38. Rate and describe the most important association initiatives that helped improve security and/or the expansion of your firm since FTA? (support for poor vintage years, R&D in aging, credit support, bankruptcy support.)

**NAME/FOCUS/DURATION/COST/BEN TO MEM./ASS. ROLE/1-5 SCALE**

- 1.
- 2.
- 3.
- 4.

39. (1-5 Scale) To what degree does the association(s) provides your firm with a competitive advantage.

How AND how not?

40. Overall, what does the association do that you cannot? (time, \$, access)

41. (1-5 Scale) How closely do the association(s) and your firms' future plans coincide?

How AND how not?

42. How would you change the association(s)?

43. Overall, what would you lose if you withdrew your association membership?
44. Have you ever tried to estimate the net value you receive for your dues?
45. (1-5 Scale) What is your overall rating of the association? Comment.

**E. Non member**

46. Are you familiar with other associations? (identify them)
47. Why have you decided to not join them?
48. What structural/policy changes would you like implemented (if any) as a prerequisite to joining them?

Thank you.

(1-5 Scale Guide)

1. not at all successful (useful)
2. marginally successful (useful)
3. partially successful (useful)
4. very successful (useful)
5. extremely successful (useful)

## APPENDIX B (ASSOCIATION INTERVIEW SCHEDULE)

**Association Name-**\_\_\_\_\_

**Date-**\_\_\_\_\_

### **A. Background Information**

1. Name and status of respondent:\_\_\_\_\_
2. Origin of association:\_\_\_\_\_
3. Employment: Dec. 88#\_\_\_/\_\_\_%(Part-time)--2002 #\_\_\_/\_\_\_%(pt)  
Dec. 88 \_\_\_%/\_\_\_% management/secretarial--2002 \_\_\_%/\_\_\_%(ms)  
Dec. 88 \_\_\_%/\_\_\_% Paid/Voluntary—2002 \_\_\_%/\_\_\_%(pv)
4. What is the structure of the association?
5. How is the leadership hired?
6. What are goals of the association?
  - 1.
  - 2.
  - 3.
7. What is the role of the director?
8. Regularly scheduled association meetings:
  - a.) location \_\_\_\_\_ b.) attendance #s \_\_\_\_\_
  - c.) purpose \_\_\_\_\_ c.) How chaired? \_\_\_\_\_



9. Do you call 'special purpose' meetings? Comment. (above for more)
10. Do all firms have equal say or privileges?

11. Membership #'s: at founding\_\_\_\_\_1998\_\_\_\_\_now\_\_\_\_\_

12. What is the turnover of members?

13. Are you actively recruiting members?

Why not? OR How?

14. Do you think of your members in terms of distinct types? (E.g. size, product mix, type of ownership, market, % of grapes grown on production site)

15. Does the association include firms that solely grow grapes? YES NO  
% of total?

16. Membership requirements: \_\_\_\_\_

17. What are the membership dues? How are they calculated?

18. Are there any additional charges for members to participate in association programs?

19. How are those who fail to conform to association policies punished?

20. How are the goals and strategies determined? (by members, government, etc.)

21. How are member's needs, values, and desires communicated to the association?

22. What general services do you provide to members?

23. Where does your funding come from? Govt\_\_\_%

Members\_\_\_%

Other\_\_\_\_\_% (list)

If government, under what conditions?

24. What is the budgetary process for allocating those funds?

25. What is the annual budget in 1988\_\_\_\_\_ 1998\_\_\_\_\_ 2002\_\_\_\_\_

26. Does your association have relationships with other associations? YES NO

What is the nature of the relationship?

### **B. Marketing**

27. Since the FTA, what has your association done to improve marketing? Rate and describe most important.

**NAME /FOCUS/DURATION/COST/BEN.TO MEM./ASSOC ROLE/1-5 SCALE**

1.

2.

3.

4.

28. Where do ideas for these initiatives come from? (also members? & collective vs. individual)

29. Give an example of a less successful initiative.

30. What criticisms have your members made of marketing initiatives?

31. How are you responding to those criticisms?

32. What plans for marketing?

### **C. Shared R&D**

33. Since the FTA, has your association improved the viticultural practices (picking, fermentation, aging, bottling, and packing) of your members? Rate and describe most important.

**NAME/FOCUS/DURATION/COST/BEN.TO MEM./ASSOC ROLE/1-5 SCALE**

1.

2.

3.

4.

34. Since the FTA, has your association improved the viticultural competence of your members? Rate and describe most important.

**NAME/FOCUS/DURATION/COST/BEN.TO MEM./ASSOC ROLE/1-5 SCALE**

1.

2.

3.

4

35. (1-5 Scale) How important is improving vini-viticultural competence of your members to the overall aim of the association?

36. How does the association relay vini-viticultural developments back to members?

37. Does the association provide other types of education to its members?

#### **D. Industry Representation**

38. In representing the industry to government, what have the main issues been over the last ten years?

39. How did you represent your members interests on these issues? Give examples. (also- money, time, energy)

40. Does the government ever approach the association?

Examples?

41. (1-5 Scale) Success of association in influencing government policy in general?

Comment.

How AND How not?

42. Does your association represent firms in the media? YES NO

How?

43. (1-5 Scale) How successful in representing member firms to the media?

Comment.

How AND How not?

44. Has the level of access to govt. and the media improved since the founding of the association? YES NO

How AND How not?

45. If no, is this a future goal of the association?

46. Since the FTA, quickly comment on what your association has done to support its members in poor vintage years (e.g. R&D in aging), credit support, and bankruptcy support.

## **E. Final Assessment**

47. Have you ever tried to estimate the net value of the services you provide to members for their dues?

48. (1-5 Scale) Success in achieving the overall association mandate? Comment.

How AND How not?

Thank you.

(1-5 Scale guide)

1. not at all successful (useful)
2. marginally successful (useful)
3. partially successful (useful)
4. very successful (useful)
5. extremely successful (useful)

## APPENDIX C

### The Formally Stated Purposes of the OWFS

*"To support and promote the development of the wine tourism industry in the geographic area known as the Thompson Okanagan Tourism region;*

*To encourage excellence and quality in the wines which are produced in B.C. particularly the Okanagan and Similkameen Valleys;*

*To enhance the reputation and economic viability of grape growing and wine producing industries in the geographic area known as the Thompson Okanagan Tourism region;*

*To improve communication between all members of the society and the public and to improve the level of service provided by all members of the society to the public;*

*To educate the public as to the quality of B.C. wines;*

*To maintain a close liaison with the Thompson Okanagan Tourism Association;*

*To promote all the above aims by starting annual Wine Festivals under the brand name 'Okanagan Wine Festivals' and by hosting annual wine competitions" (Province of B.C. Form 10 Society Act, May 28, 1999).*

## APPENDIX D

### **The Published Mandate of the BCWI, as Stipulated in the B.C. Wine Act**

1. *To establish quality standards covering designated viticulture areas, varietal and blended wines, vintage dating, vineyard designation, estate bottling, and speciality wines.*
2. *To coordinate marketing efforts in order to enhance the quality image for all British Columbia Wines bearing the trademark.*
3. *To coordinate and exchange information and research in areas of macro and micro climatology, varietal and clonal selections, training methods and related viticultural practices for the mutual benefit and development of British Columbia's winegrowing regions.*
4. *To coordinate and exchange information and research with regard to the uniqueness of British Columbia's winegrowing regions for the purpose of defining and improving upon characteristics and qualities of the wines that are produced in those regions.*
5. *To develop and disseminate educational information and material for the purpose of informing the public and interested members of the wine community about British Columbia's winegrowing regions (B.C. Wine Act, 1990).*

## **APPENDIX E**

### **The Goals of the ABCW**

*“To provide a unified representation of all member wineries in B.C. producing wines solely from 100% B.C. grapes or fruit (i.e. this land based requirement includes all, if any, parent companies);*

*To speak on behalf of member wineries;*

*To promote the interests of the members of the association;*

*To assist where possible in the promotion of member wineries producing only 100% B.C. wines;*

*To analyze and disseminate all new relevant information and regulatory changes to all member wineries;*

*To cooperate and form a comprehensive B.C. wine industry;*

*To promote the common growth of member wineries within a B.C. wine industry;*

*To promote and represent the ABCW to government, all relevant agencies, and the media” (ABCW handout, 2000).*



## APPENDIX F

# SIMON FRASER UNIVERSITY

OFFICE OF RESEARCH ETHICS



BURNABY, BRITISH COLUMBIA  
CANADA V5A 1S6  
Telephone: 604-291-3447  
FAX: 604-268-6785

June 5, 2003

Mr. Aaron Kingsbury  
Graduate Student  
Department of Geography  
Simon Fraser University

Dear Mr. Kingsbury:

**Re: Cooperative fermentation: the role of formal cooperation  
as represented by business interest associations in the  
development of the post-FTA Okanagan wine industry**

The above-titled ethics application has been granted approval by the Simon Fraser Research Ethics Board, at its meeting on May 26, 2003 in accordance with Policy R 20.01, "Ethics Review of Research Involving Human Subjects".

Sincerely,

Dr. Hal Weinberg, Director  
Office of Research Ethics