Business associations and local development: The Okanagan wine industry’s response to NAFTA

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Abstract

Business associations (BAs) represent a widely prevalent institution contingent upon a plethora of regional and industrial contexts around the world. Although their role in local development is rarely highlighted this paper argues that analysis of the structure and strategies of BAs reveals important insights into the problematic nature of external economies, typically based on the willingness of highly independent small firms to share and possibly fund some common service(s). BAs illustrate cooperative behaviour and their fragmentation indicates limits to cooperation and thereby to the contested nature of this particular external economy. Conceptually, the paper interprets BAs as institutional expressions of local cooperation and theorizes their strategy and structure in terms of a ‘logic of exchange’ model. This model defines the relationships between BAs, their members (organizational domains) and governments in terms of the logics of ‘membership’ and ‘influence’ that help understand the opportunities afforded and tensions imposed by the rationale and dynamics of cooperation. Empirically, the paper examines the formation and performance of BAs in the restructuring of the Okanagan’s wine industry that was stimulated by the Free Trade Agreement (FTA) between the US and Canada in 1989 and the North American Free Trade Agreement (NAFTA) of 1991. In the Okanagan wine industry, a newly formed BA was vital in helping firms overcome the crisis generated by free trade. However, subsequent fragmentation that arose out of member disenchantment with logics of influence and membership, indicated limits to local cooperation that may constitute a significant diseconomy in a future crisis.

Keywords: Business associations; External economy; Cooperation; Okanagan wine; NAFTA

1. Introduction

Business associations (BAs) represent a widely prevalent institution that in various forms are found around the world in many regional and industrial contexts (Bennett, 1998). From a local development perspective, BAs illustrate external economies of scale in the form of services of different kinds to populations of members that are beyond the means or willingness of individual members to provide internally. Yet, if they are frequently cited in studies of location dynamics and local development, the role of BAs is rarely highlighted or systematically explored; Bennett’s (1996a, b, 1998, 1999, 2000) comprehensive investigations are exceptional in this regard. As Bennett (1998, p. 1367) notes, BAs are important but scarcely dominating institutions in the realization of competitive advantages and they exhibit complicated, varying characteristics. Indeed, BAs are highly contingent on local circumstances, and are frequently (but not invariably) strongly shaped by the imperatives, functions and attitudes of small and medium-sized enterprises (SMEs).

This paper seeks to contribute towards a better understanding of BAs in local development via a specific regional and sectoral case study of the wine industry in the Okanagan region of British Columbia (BC), Canada. The paper focuses especially on the role of BAs in the restructuring of the Okanagan’s wine industry that was stimulated by the...
Free Trade Agreement (FTA) between the US and Canada in 1989 and the North American Free Trade Agreement (NAFTA) of 1991. The FTA and NAFTA fundamentally changed the competitive environment of the Okanagan wine industry. Hitherto, the industry had developed around a few locally based firms that supplied cheap wine to local markets that were protected from foreign competition. The trade agreements, however, signaled the removal of this protection and threatened the import of large volumes of US-based wines that served all market segments. Both the industry and the BCs provincial government anticipated competitive salvation by an up-market shift to better quality wines produced by an increasing number of small and medium-scale producers. In practice, a cornerstone initiative of the provincial government was the creation of the British Columbia Wine Institute (BCWI) under the British Columbia Wine Act (Bill 58-1990) in 1990. The BCWI is a BA that provides various services, most notably related to marketing, and in 1990 all wine producers in BC were required to become members, 99% of which were located in the Okanagan Valley. This analysis focuses on the structure and performance of the BCWI from its inception to 2003 in stimulating the Okanagan wine industry’s shift to higher value production.

The creation and behaviour of specific BAs reveal how an important form of external economy, that is normally strongly localized, is formally instituted and evolves. An important theme in recent regional development literature has emphasized the role in cooperation among firms, especially in relation to SMEs, in the realization of local competitive advantage (Patchell, 1996; Storper, 1997; Cooke and Morgan, 1998). BAs are a formal expression of such cooperation. Yet, the oft-noted ‘independence’ of SMEs raises questions about the commitment to cooperate, as does the tendency of BAs to fragment, that is for members to quit. Bennett’s (1996a,b, 1998, 2000) studies of the population characteristics of BAs in the UK have impressively revealed variations in their structure, performance and motivation, why members join and leave, and the implications for government policy. As a compliment to his macroanalyses, this study focuses on one main case study in a specific regional-sectoral setting. If less amenable to formal hypothesis testing, the contributions of our approach lies in what might be termed ‘the value of concreteness’, that is the revelation and understanding of actual and dynamic behaviour, shaped by specific events and local circumstances. Moreover, our approach explicitly links BAs to local development issues, especially by connecting to literatures on agglomeration economies (and clustering and networking).

Conceptually, this paper interprets BAs as problematic institutional expressions of local cooperation, collaboration or networking. From a local development perspective, the paper seeks to theorize the strategy and structure of BAs by drawing particularly on the ‘logic of exchange’ model of BAs, as developed in the business organization literature (Schmitter and Streeck, 1981; Van Waarden, 1992; see Bennett, 2000). This model interprets the relationships between BAs, their members (organizational domains) and governments in terms of the logics of ‘membership’ and ‘influence’ that help understand the opportunities afforded and tensions imposed by the rationale and dynamics of cooperation (within BAs). Empirically, the analysis draws primarily on personal interviews with 53 respondents representing wine growers, the British Columbia Wine Institute (BCWI), and other associations. These interviews explored the rationale, functions and fragmentation of the BCWI at its formation and until 2003, most especially with respect to marketing. The analysis highlights both the success and fragmentation of the BCWI in relation to tensions in the logics of membership and influence, and the extent and limits of cooperation.

2. Business associations, cooperation, and local development

There is now much appreciation of the significance of cooperation in enhancing regional competitive advantage and that competition and cooperation are not mutually exclusive and antagonistic. According to Patchell (1996, p. 481) cooperation is “a voluntary relationship entered into for mutual egoistic benefit and its evolution is promoted by localization of a population” as “the region [is] the most likely source for the evolution of cooperation” that increases the “likelihood that people will enter into repeated interactions” (Patchell, 1996, p. 496). BAs widely reflect voluntary cooperation (Bennett, 2000). More generally, local populations of firms constitute social groups characterized by personal contacts, a sense of local belonging and leadership and are able 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, p. 534). Even as competitors, local firms provide community cohesion and solidarity (Schmitter and Streeck, 1981, p. 14).

Cooperation among firms is manifested in numerous ways. Izushi (2002), for example, distinguishes direct and implicit cooperation through informal channels; direct bilateral and multi-lateral ties with other firms such as suppliers and buyers, and sometimes the state; and inter-firm communications within joint ventures and business associations. Within economic geography and related literature, Marshallian agglomeration economies have long acknowledged the power of localized cooperative behaviour in facilitating competitive advantage in the form of access to appropriately skilled labour pools, knowledge transfers and spillovers, the development of scale and scope economies including with respect to BAs, and marketing and lobbying power (Sunley, 1992). Indeed, Marshallian agglomeration economies cast a considerable shadow over the recent upsurge of related literatures on learning regions, clustering, flexible specialization, networking and industrial districts (Lagendijk and Oinas, 2005a). Recent studies, however, have probed and clarified the institutional structures underlying agglomerations. Lorenz (1992), for example, notes that the exchange of goods and services,
especially in localized concentrations of activity, is often underpinned by trust and informal convention, whether in addition to or as a replacement for legal contracts. Similarly, Storper (1997) stresses the importance of ‘untraded interdependencies’ that primarily comprise non-priced exchanges of information and expertise and that are greatly facilitated by close personal contacts (Henry and Pinch, 2001). Analyses of spatially concentrated production systems in various countries, none more so than in Japan, has helped illuminate the cooperative institutional ties that bind firm–supplier relations in terms of stability, just-in-time arrangements, and exchanges of expertise and finance (Sheard, 1983; Patchell, 1993; Cooke and Morgan, 1998). More generally, recent books published by the ‘economic geography commissions’ of the International Geographical Union provide an extraordinary breadth of examples that highlight the institutional support systems underlying localized activity around the world (Vatne and Taylor, 2000; Felsenstein and Taylor, 2001; Hayter and Le Heron, 2002; Alvstam and Schamp, 2005; Lagendijk and Oinas, 2005b). Whether with respect to high tech activities in new economic spaces (e.g., Rees, 2005a,b) or low tech activities in old industrial spaces (e.g., Watts et al., 2005), a central concern of these studies is the relative strength and nature of local (proximate) and non-local (distant) networking both with respect to traded and non-traded linkages. Many other studies can be cited in this regard (e.g., Oinas and Malecki, 2002; Gertler, 2004).

From this paper’s perspective, this literature has focused on firms and inter-firm relations, and related government policies. BAs are largely neglected; with few exceptions (e.g., Bennett, 1998). BAs are often mentioned but scarcely subjected to detailed inquiry or directly theorized. Firms in all sectors, however, seek to solve collective action problems and gain competitive advantages by cooperating through BAs. Indeed, BAs are everywhere. In the British case, for example, Bennett (1998) identified 753 business associations from across all economic sectors, of which over half comprised trade associations (TAs) that are sponsored by companies (rather than by individuals). BAs provide various services to their members, notably labour training, marketing, research and development (R&D), facilities, forums for information exchange and debate and, by no means least, lobbying activities to shape government policy. Whatever mix of services are provided, the basic rationale of BAs is to provide members with functions they are not supplying internally. The further implication of BAs is that they are superior to alternatives in the form of private specialized suppliers, such as private consultants, or government agencies.

Theoretically, the idea that BA services make collective but not individual sense defines the essence of an external economy. In Bennett’s (1996b, 1998) view, BAs reduce the ‘transaction costs’, defined as the costs and uncertainties of engaging in market-based exchanges, of providing services to a population of firms (members) more efficiently than alternative arrangements. Transaction costs, however, imply a precision about costs and benefits of membership in BAs that does not exist. Membership fees only partially assess BA costs (and may be subsidized), as members face implications of internal ‘politicicking’, including issues about domination and agenda setting, meetings that require time and energy, and fears about inappropriate decisions. The problem of ‘free riders’, whereby non-members gain access to the benefits generated by BAs (for example, local non-members that benefit from marketing promoting schemes on behalf of the region) is an oft-discussed issue that is hard to measure. The benefits of BAs to members, whether in the form of the value of collective service (such as a market promotion scheme), informal information exchanges, networking or ‘friendship’, are equally difficult to assess. Private evaluations of BAs are highly judgmental and as Schmitter and Streeck (1981) point out BAs are “highly artifactual social institutions” whose performance is hard if not impossible to justify on purely economic terms. Indeed, as Hirschman (1970) long ago emphasized in a study of why members ‘exit’ (and stay) in organizations, economic considerations are intricately bound up with political views (‘voices’) and matters of loyalty.

Nevertheless BAs are formal organizations with histories, strategies, structures, and mandates that influence and are influenced by the behaviour of members and outside institutions, including governments. In general terms, BAs desire improved governance of industry, more informed policy, enhanced regional competitiveness through the realization of external economies, and increased local development. Van Waarden (1992) argues that BAs mediate between two types of organizations: domains or the group of businesses BAs intend to organize and represent; and secondly the interlocutors or institutions that BAs interact with, notably the state but also suppliers, customers and other BAs. BAs obtain resources (e.g., membership, finance, discipline and information) from firms within the domain, and influence in the form of recognition, access, and concessions from the interlocutors (Van Waarden, 1991, 1992). While BAs provide domains with access to government, selective goods, and a medium for discussion, they offer interlocutors inducements in the form of taxes, industry control, and/or regulation (Schmitter and Streeck, 1981).

Schmitter and Streeck (1981) codify the interdependent connections among BAs, domains and interlocuters, especially governments, in terms of a ‘logics of exchange’ that are classified as the logic of membership and the logic of influence (Fig. 1). According to Van Waarden (1992), the logic of membership explains the reasons and conditions for the formation of BAs by egoistic firms. For voluntary BAs the rationale for joining (or not) is provided by individual firms (Bennett, 2000). Whether voluntary or involuntary, the logic of membership is defined by the extent to which firms are represented by BAs and their degree of influence over BA policy. The ability of BAs to recruit and retain members depends on this logic. The logic of influence is defined in terms of the relationships between BAs and interlocuters and highlights the control functions of BAs as
they seek to self-discipline and regulate member behaviour as a means to achieving credibility with governments, consumers and other partners. According to this logic, BAs can distance themselves from uniquely variant member interests while taking into account the interests of interlocutors, and mould these interests into aggregate goals.

As BAs evolve, “in developing their organizational structure, associations have to satisfy the two important functions… those of representation and of control” (Van Waarden, 1992, p. 537). Indeed, BAs differ depending on whether they are primarily control or representative organizations (Table 1). Thus in terms of domains and resources representative BAs tend to have a narrow membership structure and rely on voluntary labour and limited, unstable funds from members. In terms of structure and activities representative organizations have simple functional foci, and are uncoordinated with changing poorly defined mandates, ad hoc, short-term approaches to policy and decision making that is highly consensual and decentralized. In Van Waarden (1992) study, for example, representative BAs initially began as “minimalist organizations” with low start up and maintenance costs, no full time staff, no geographic headquarters or offices, and infrequent meetings (see Halliday et al., 1987). In comparison, control BAs typically enjoy more broadly based membership structures and are coordinated organizations with legal mandates that are funded from various sources, including the state and run by paid labour. Control BAs are multi-functional, hierarchical, professional organizations and centralized organizations that have discretionary powers to make decisions outside of the immediate representative interests of members. Ultimately, the members of control BAs become “customers subscribing to a set of services in whose production they take no part” (Schmitter and Streeck, 1981, p. 205). According to Van Waarden, on the basis of Dutch experience, a general trend among BAs is to develop from representative to control organizations. As a (more developed) control organization, the BA internalizes interdependencies, becomes more specialized and coordinated and ensures “its supply of strategic resources are institutionalized; and as such the greater its autonomous capacity to act and pursue long-term strategies regardless of short-term environmental constraints and fluctuations” (Schmitter and Streeck, 1981, p. 124).

Control and representative BAs define different kinds of external economies that are typically highly localized (Fig. 1). Localized external economies may be regarded as ‘immobile’ as firms have to be within the locale to access them (Hayter and Edgington, 1999). Free ridership is a problem to the extent that benefits from BAs accrue to local firms who are not members. Bennett (2000) argues that BAs are widely undervalued by individual firms, in part because of free ridership, a problem that is not easy to resolve. If external economies are mobile, that is enjoyed by firms outside of the locale and domain in which they are provided, free ridership becomes a particularly tricky issue to address.

External economies (mobile and immobile) are shaped by specific, interdependent regional and sectoral contexts. In this regard, there is a tendency within the economic geography literature to think of BAs as developing in Marshallian style out of urban-based SME-dominated industrial agglomerations. BAs, however, exist in many different contexts and, for example, have been crucial to the exploitation of resource peripheries where producers often find themselves at a collective disadvantage in marketing products and in overcoming regionally specific technological

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**Fig. 1. Business associations and the logics of exchange. Source: Adapted from Schmitter and Streeck (1981).**
problems. In BCs forest economy, for example, the Council of Forest Industries (COFI) exemplifies a control BA that provided research and development expertise and pioneering marketing initiatives that helped open up vital Japanese markets to its members and important lobbying functions, including the responsibility to combat the introduction of American protectionism directed against its members only, low, insecure and obsolescent. Thus BAs develop accumulated expertise and networks, more functions to meet the needs of existing and new members while the achievement of control status implies internal commitments to survival. Recently, Bennett (2000, p. 30) has emphasized free ridership as a divisive issue among BAs and that, apart from the dominating cause of business failure, the main motives for members leaving BAs related in various ways to “dissatisfaction with services and/or costs”. Further, the particular balance of factors for staying or leaving may shift over time within individual BAs for several reasons. First, as BAs shift from representative to control organizations, or vice versa, some members may become disillusioned over policies, procedures and whether they are receiving value for money. Second, as BAs develop, conflicts among members can arise from both homogeneity and heterogeneity (Schmitter and Streeck, 1981). Thus similar firms are close competitors and competition, for example over market share, simultaneously stresses the role of BAs as facilitators of member interests. On the other hand, heterogeneity of membership increases the diversity of interests BAs represent and control that in turn can reduce their relevance to specific segments of firms. Third, firms and perhaps especially SMEs look to BAs for short-term problem solving to meet their specific needs while BAs prefer long-term responsibilities. Fourth, the independence valued by owners of SMEs encourages ideological pre-dispositions antagonistic to limits on what they consider their legitimate spheres of decision making autonomy. SMEs comprise highly critical members in the domains of BAs and are acutely sensitive to issues of bias and favouritism.

For governments, BAs are an attractive tool for local development as the sponsoring of BAs is a low cost initiative that supports cooperation among relatively large populations of firms that helps promote local development. The sponsorship of BAs illustrates a facilitative role of government without excessive interference in the affairs of individual firms and without accusations of subsidy allocations. BAs can be high profile and help locally implement government agendas. Moreover, although not emphasized in the literature, BAs are potential problem-solvers in times of crisis even if such policy promise has to be offset by the tendency of BAs to fragment. Meanwhile governments provide associations with status, help them develop their resources, and use them as partners in policies to the benefit of the economy through improved legislation and regulation” (Bennett, 1999, p. 593).

The paper now turns to the role of BAs in the Okanagan region of British Columbia (BC) with specific focus on the British Columbia Wine Institute (BCWI) that was created at a time of crisis to help restructure the local wine industry. In general, the discussion interprets the origins, performance and fragmentation of the BCWI in terms of the logic of exchange framework. The conclusion debates the validity of this interpretation in relation to external economies, prevailing hypotheses about BAs and policy implications.
3. Business associations and the Okanagan wine industry

The FTA of 1989 and NAFTA in 1991 created a crisis situation for Okanagan wine growers and wineries. Indeed, free trade was widely considered to be the death knell of the industry. In 1989, the Okanagan wine industry comprised 14 wineries (seven large and seven medium-sized) that used inferior hybrid grapes to manufacture low quality wines that were protected from foreign competition by various provincial and federal government policies. Basically, a 1968 law required BCs wineries to buy 80% of their grapes from local growers while imported wines faced considerable tariff barriers and all (local and imported) wine sales were closely regulated through exclusive connections to provincial government owned retail outlets operated by the British Columbia Liquor Distribution Board (BCLDB). Free trade meant the elimination of such protection thus exposing a non-competitive subsidized industry (Vielvoye, 1991; Ross, 1995; Adams, 1992; Aspler, 1999). Indeed, in expectation of decline many of the 14 wineries evoked the Force Majeure clause and cancelled contracts with local grape growers. At this critical time, the firms and provincial government sought collective responses. As one 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. We did everything we could to help each other’ (Kingsbury, 2004, p. 38).

These discussions resulted in the Grape and Wine Sector Adjustment Programme (GWSAAP) that provided Can$28 million of government funds to the industry for ‘adjustment’ purposes—a generous commitment given the value of wine grape production was just $4.5 million in 1990. As noted by many respondents, however, the GWS AAP was really scripted as a “programme to get people out of the business” and most funds went to growers to uproot grapes and exit the business. Growers received $7000 per acre to eliminate wine grape production and the number of growers dropped from 225 to around 90 by 1991/2 while 2308 acres of mostly French hybrid and Vitis labrusca grapes were removed. In contrast, some growers sought to continue farming and, in the face of initial opposition, won approval to license as farm wineries from the provincial government while existing wineries provided supplies such as corks and equipment. Meanwhile the larger wineries took advantage of the GWSAAP to replace hybrid grapes with premium vinifera. The GWSAAP also provided $1 million to establish and sustain the BCWI for five years, an initiative that signaled new awareness among wineries, growers and the government, that the Okanagan wine industry could be rejuvenated.

The BCWI was incorporated under the British Columbia Wine Act (Bill 58-1990) of 1990 that prescribed the guidelines for the BC appellation standards, the province’s designated viticultural areas, the Vintners Quality Alliance (VQA), and funded the initial operations of the association. The provincial government’s hope was that the BCWI would help the survival of the Okanagan wine industry in the new free trade environment by promoting a shift to higher value wines, most notably with respect to marketing. The wine industry is also an integral part of the tourism experience of the Okanagan region.

In practice, the Okanagan wine industry successfully adjusted in the prescribed manner and the mandate of the BCWI was at least consistent with this achievement. Yet, within six years fragmentation became a problem within the BCWI and another BA was created, the Association of British Columbia Winegrowers (ABCW), while the existing Okanagan Wine Festival Society (OWFS) was expanded. Moreover, the BCWI shifted from more of a control organization to more of a representative BA, contrary to the evolutionary trajectory anticipated by Van Waarden (1992). The ABCW and OWFS are also principally representative BAs. The empirical analysis examines the structure, strategy and fragmentation of the BCWI on the basis of the logics of membership and influence and the related ideas of representative and control organizations.

The primary data were collected from in-depth, face-to-face, semi-structured interviews with 53 respondents conducted over a period of six weeks during the summer of 2003. All but one of the respondents represented firms and BAs; the one exception had retired around the signing of the FTA. All the respondent firms are clustered within the Okanagan Valley Region of BC that stretches from the US border to Salmon Arm, the northern end of the North American temperate wine-growing belt (Fig. 2). Although wine is now produced throughout the province, the Okanagan Valley remains the dominant center of the province’s viti- and viniculture. The interviewed wineries are readily classified into three size groups, small, medium and large (Table 2). The distinctions are not merely statistical but reflect different organizational types that are reflected by official designations of production capacities in which small or ‘cottage’ wineries use on-site grapes, medium wineries supplement on-site production of grapes with other local grapes, while large wineries mainly import grapes.


At its inception, the BCWI had reason to think of itself as a representative and control organization, concerned with both the logics of membership and influence. The pressure to be a representative organization stemmed from the BC Wine Act that legislated the organizational domain of the BCWI by requiring grape-wine growers to ‘register’ and pay levies. Indeed, the firms assumed these requirements to be legal obligations. While this assumption remained unchallenged, as it was until the mid-1990s, the turnover of firms and problems of free ridership were non-issues. There were strong informal social ties among the BCWI member firms and the crisis created by NAFTA confronted them all. In the early years all respondents recalled a spirit of close cooperation, social cohesion, and shared short-term goals.
that further reinforced the idea of BCWI as a representative organization that respected the logic of membership.

Yet, at its inception BCWI was mandated as a controlling, structured organization. Upon its founding, the BCWI was governed by an eight member Board of Directors who enjoyed complete control over the construction, implementation and assessment of the association’s agenda. Seven members (all from industry) were appointed by the provincial government, while the remaining member was a government representative appointed by the BC Ministry of Agriculture, Fisheries and Food. In turn, the Board appointed a three-person Executive Committee (EC), one from a large and medium-sized winery and a grape grower. While the chair of the EC (from a large firm) remained the same, small firms had no representation until after 1997 (when the chair also changed). The way that the BC Wine Act prescribed the internal structure of the BCWI the membership-at-large had no means of electing Board members and any agenda items from members were submitted in writing and discussed at the discretion of the Board and EC. In 1993 the internal structure of the BCWI was expanded to include several new committees, each designed to perform tasks to benefit the membership-at-large. These committees comprised volunteers, normally

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

from the membership. Their primary role, however, was to provide advice to the BCWI’s Board of Directors who retained decision making control, independent of influence from most members. In solidifying this control, the BCWI’s Board of Directors developed ties with other pertinent associations and organizations, most notably joint efforts with the Canadian Wine Institute (CWI) and the National Export Committee (NEC) to develop export markets and establish a Canadian wine standard.

The BCWI’s centralized control structure was reinforced by its financing, 88% of which came from subsidies from provincial and federal governments. While this subsidy implied that member firms could accrue benefits from the association with only minimal outlays, it cemented the Board’s affiliation to the provincial government and its sense of autonomy to construct internal structure, build long-term goals, and operate a diverse range of programmes. Indeed, as a government legislated and subsidized association, the BCWI enjoyed privileged access to provincial and federal governments and vice versa. For the provincial government in particular the BCWI constituted a powerful and friendly association, offering the advantage of one main industry voice with which to interface. During this time, the BCWI requested and secured funding from a variety of government organizations, and worked regularly, as many respondents noted “successfully”, with various levels of government on policy development and the redirection of the industry following the NAFTA towards a higher value, more profitable base.

4.1. Marketing services and the Vintners Quality Alliance (VQA)

The BCWI was conceived primarily as a marketing association and its political lobbying and business networking activities were mainly concerned with expanding sales and encouraging the production of higher quality, differentiated wines. The BCWI has not done much regarding product development, leaving research and development to individual firms, and its support of conferences and education have mainly focused on providing basic knowledge to participants.

At the core of its marketing programme was the Vintners Quality Alliance (VQA). Following the FTA, industry leaders asserted that a key to survival lay in the purging of the industry’s reputation for poor quality wines. Industry leaders advocated high standards of production to assure customers of quality wines from all suppliers. In addition, wineries that produced wines from locally grown grapes, rather than imported grapes or bulk juices, wanted some method of noting that difference to consumers. In response the BCWI adapted the system and same appellation of Ontario, the VQA, as a cornerstone of its mandate and identity.

The VQA programme was designed to be a brand-mark that would identify wines manufactured from 100% BC grown grapes, dictate grape variety, codify acceptable winemaking practices, prescribe labelling standards and distinguish those BCWI wineries that met the criteria. To meet VQA standards wines were blind tasted and subject to sensory evaluation, and required final approval from the BCWI Board of Directors. VQA became the dominant focal point of early BCWI programmes, and as such impacted the development of the internal structure and operation of the BCWI. As all respondents noted, the VQA quickly became the basis for appellation standards, a marketing tool for the industry, and ultimately a BCWI-operated form of quality control.

Further, the BCWI made concerted efforts to develop new marketing channels, initially particularly within BC. In this regard, the BCWI was greatly aided by its connections with the provincial government that, despite the new free trade regime, kept in tact the government controlled BCLDB and its network of retail outlets throughout BC. The BCWI professionally orchestrated numerous low cost in-store advertising campaigns within these outlets to promote British Columbia’s VQA wines with materials such as binders, varietal posters, signage, and other “point of sale” materials. Such efforts increased the sales and profitability of its members, and further established VQA wines with provincial consumers. The BCWI also used its influential connections with the government to lobby for proactive policy development such as the so-called J License, a provincial law that allowed for the sale of food and wine at the wineries. This initiative increased employment opportunities not only at the wineries, but also in the parallel industries of tourism and hospitality.

Firms (almost) unequivocally judged the VQA programme a great success in the early years. Among the 18 founding wineries incorporated in the BCWI all but one claimed VQA provided ‘strong competitive advantage’; the lone medium-sized dissent was no longer a member of any BA and has experienced below average profitability. Growth in the industry was spectacular. Between 1990 and 1996 sales throughout the industry grew from almost $7 million to $32 million, the number of wineries increased, the BCWI expanded to 38 members while the price per bottle of VQA wine increased from $9.04 to $15.35 (BCWI Annual Reports 1991–1996). In the mid-1990s, a report by Coopers & Lybrand Consulting, hired by BCWI to assess its marketing programmes, confirmed membership perceptions that the VQA programme presented the consumer with a tangible brand-mark that had successfully helped change the previous perception of the region as a poor quality wine producer. This report found that the BCWIs initiatives were successful in building awareness of, and preference for, BC wines in the domestic market and that the VQA symbol had become associated with quality, adherence to control standards, and consistency that in turn helped lend credence and respectability to BCWI members and their products, and contributed to increased
viti- and vinicultural competence and profitability of firms within the industry (BCWI Annual Report, 1995–96). Nevertheless, sales remained largely focused on the BC market (as they are now) and within Canada scarcely occurred east of Alberta where domestic wines are dominated by Ontario and Quebec producers.

By the end of 1996, however, tensions were evident within the BCWI. These tensions worsened, rooted in criticisms of the BCWIs conduct, fee structure and policy choices, especially in relation to plans for export development and national standards. The BCWI quickly fragmented.

5. The fragmentation of the BCWI 1996–2003

By 1997 the BCWI had lost over a quarter of its existing membership and many of these firms helped form the ABCW and re-invigorate the OWFS. Moreover, this fragmentation was acrimonious and relatively (but not absolutely) drew cleavages between small firms, on the one hand, and large and medium-sized firms on the other hand, as they are defined in the industry (Table 2). Financially, the government reduced its support in 1996 and 1997, and due to crop shortfalls, funding from members in those same years was lower than expected. Consequently, the BCWI progressively increased levies and by 2000, 72% of its funding was taken directly from members. This evolution in funding led many members to question more closely the value they received from their dues, and how, where, and for whom association funds were being spent. As firms were required to spend their own money, they demanded more influence on the politics and direction of the BCWI, considerably altering the previous logic of exchange relationships. As levies had increased, firms both looked for direct benefits for their costs, and ways to direct the BCWI to gain competitive advantage and control for their sector and firm. Moreover, there were only two small wineries at the incorporation of the BCWI and even though many small firms subsequently joined and left, this winery type comprised 65% of association membership by 1997. Small firms, however, contributed only a small fraction of the association’s total levies. For their part, several large and medium-sized firms, although acknowledging a degree of ineffectiveness, continued to support the BCWI, and expressed apathy or aloofness towards small firms that they often associated with ‘poor quality producing’ dissident wineries and for threatening the spirit of cooperation.

The political situation within the BCWI continued to degrade until a large-scale walk-out in 1998 was triggered by a policy dispute, specifically over a national standards trademark. The walk-out, however, did not imply dissatisfaction with BAs in principle, as the predominantly small firms who left the BCWI quickly created the ABCW, an intra-industry industry advocacy group for ‘land-based’ wineries that rely exclusively on BC grown grapes, a requirement that eliminates most large wineries from its domain. Initially formed from the core of disenfranchised winery owners who were unable to change the BCWI from within, the ABCW has grown in size and influence, and now includes 64% of firms that fall within its organizational domain. Since its incorporation, the ABCW has remained representative in operation, having no real formal structure, extensive sources of funding, marketing initiatives, nor R&D. In addition to nominal benefits such as group purchasing, its membership continues to join for the benefits accrued from a strengthening relationship between the ABCW and government, thus signaling the end of BCWIs monopoly role in this regard. For the most part, the members of the ABCW are small farm gate wineries, highly active and aware politically, showing a great deal of trust in their Board of Directors, and sharing a high degree of solidarity with fellow ABCW members. Indeed, most respondents used ‘we’ when referring to the actions of the ABCW but ‘they’ in relation to the BCWI.

Indeed, many members spoke of the successes of the ABCW in educating the government as to their concerns as small firms, and in protecting both their business and their rights in the marketplace. Although the ABCW does not represent a large volume of the wine produced within British Columbia, it incorporated 41 firms in 2003, providing collective political opposition to the province’s plan to join national wine standard, as well as a formidable overall representative voice. Other respondents noted that the ABCW beneficially provides their firms with both public and intra-industry recognition. Many ABCW members credit their continued survival as small firms to the political successes of this association.

In tandem with the ABCW, the OWFS, originally developed by wineries and tourism operators prior to NAFTA, has developed into the region’s prime promoter of wine based agro-tourism, as all respondents recognize. Through cooperative marketing, alliances and regular funding from government and sponsors, the OWFS successfully organizes festivals throughout the year, sponsors wine competitions that draw attention (and tourists) to the region, while awarded wines enjoy increased exposure and marketability. Most respondents feel the OWFS is ‘good value for the money’ and a venerable driving force in the development of agro-tourism within the region. Interestingly, the OWFS was not immune to the debates adversely affecting the industry during the late 1990s, including whether to limit wine tasting competitions to VQA wines; some respondents were skeptical of such competitions because of cross-membership between the OWFS and BCWI (OWFS Meeting Minutes June 11, 1998).

Meanwhile the BCWI has redefined itself because of changes in resource endowment as well as domain demographics, notably the reductions in funding that have affected the scope and quality of its marketing programmes (BCWI Meeting Minutes, March 15, 2000). To increase cost

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2 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.
effectiveness of its reduced finances and to avoid obligating uninterested firms to participate, many marketing initiatives are partnered with tourist associations and/or have become optional “pay-to-play” programmes while marketing again is limited to BC. The VQA programme has evolved into a “members only” selective marketing good for BCWI members. Because the VQA programme is no longer universally accepted within industry as an appellation control mechanism, BCWIs effectiveness has become limited to the 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 legitimise their wines within the province at a beneficial, often otherwise unobtainable, distribution outlets agreements with the BCWI, and allow VQA wineries additional good. VQA wine stores are operated under contract their products, and as such forms a “members only” selective marketing good. VQA programme, is available only to BCWI members and stores are restricted to selling VQA wines for wineries on a consignment basis. The right to sell in VQA stores, like the right to sell in BCLDB outlets, like the BCWI. Other reasons for leaving, related to lack of influence, ill-treatment and corruption, point to failures of the BCWI. Other reasons cited for leaving the BCWI, high costs was the least noted.

Rather, ‘disagreement over political aims’ as well as problems with the operation of the VQA programme and failure to obtain competitive advantage from membership, indicate philosophical concerns over the strategies of the BCWI. Other reasons for leaving, related to lack of influence, ill-treatment and corruption, point to failures of the BCWI in properly representing members. Selected comments from different, mostly small wineries capture the deep-seated antagonisms towards the BCWI with respect to problems of representation and influence (Table 4).

Thus many small firm respondents considered the Board of Directors to be ‘stacked’ in favour of the larger wineries and whose decisions were ‘opaque’ and ‘corrupt’, masking ‘irregular’ accounting practices that involved excessive expenses and inequitable benefits. There were also strong complaints made about irrelevant committees within the BCWI. Dissension was heated and often personal, directed by members towards questionable and unfair business practices of the Directors. Clearly, a basic problem of representation within the BCWI was that the leaders were not selected by members and the logic of membership was only weakly felt by the leaders. Indeed, when the BCWI did belatedly ‘reform’ its internal structure in 1998, the new

5.1. Fragmentation and the logics of exchange

Within the Okanagan wine industry BA fragmentation has been associated with a shift in the dynamics of the logics of exchange that gave greater emphasis to the logic of membership in relation to the logic of influence (Table 1). The new, well respected ABCW was created, and as remained, as a representative organization; it is a voluntary, ‘loose’ organization with limited funds that are used to promote the interests of all its members, notably via lobbying and marketing. The OWFS is similarly a largely representative organization supported by all its members in its central activity of organizing festivals. Threatened by internal disputes, membership turnover and loss of government funding the BCWI has become less confident about imposing direction on its members and has pulled back the scope of its activities to be more representative.

The fragmentation of the BCWI is rooted in heterogeneous membership in which different organizational goals, attitudes, structures and strategies are to an important extent captured by variations in firm size. Following the establishment of the BCWI this variability widened as large firms were acquired by national and multinational corporations while small locally owned firms proliferated through-out the industry (and became numerically dominant within the BCWI). The BCWI, however, was mandated as a control organization in a top-down way that favoured the leading (and largest) power brokers in the industry. This approach could be readily appreciated in 1990 when the free trade crisis threatened the entire industry and when there was agreement about how the industry should restructure, namely by moving ‘up-market’. This restructuring plan promised, accurately as it turned out, sustainable industrial viability, including the development of important synergies with tourism and recreation. A viable, diverse wine industry has also helped promote the Okanagan as a desirable place to live and impressive population growth has increased locally based consumption.

Yet BCWI became a divisive institution, both strongly supported and opposed, the latter led by small firms. Criticism of the BCWI was not simply about fee increases. Rather the fee increases that began in 1996 help trigger already evident, deeply felt criticisms (Table 3). Among the reasons cited for leaving the BCWI, high costs was the least noted.

Table 3
Reasons for Leaving BCWI

<table>
<thead>
<tr>
<th>Reason for leaving</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagreement over political aims</td>
<td>11</td>
</tr>
<tr>
<td>Lack of influence</td>
<td>10</td>
</tr>
<tr>
<td>No competitive advantage</td>
<td>9</td>
</tr>
<tr>
<td>Problems with VQA</td>
<td>8</td>
</tr>
<tr>
<td>Ill-treatment</td>
<td>8</td>
</tr>
<tr>
<td>Corruption</td>
<td>7</td>
</tr>
<tr>
<td>High costs</td>
<td>5</td>
</tr>
</tbody>
</table>

* Six of these respondents claimed BCWI policies were detrimental to survival.
A. Board of Directors’ Biases (representation problem): selected comments

The government appointed members. All we did was pay them money
We had no say in the way it was run
BCWI was totally autocratic. Only the board voted [prior to 1999]
Economic advantages are given to one group over another
The make-up of the Board appears weighted in favour of the large wineries. Because you have two independent growers on the Board, they may be under contract to the larger winery, so they have the interests of the larger winery
The BCWI was known for its meetings before the meetings
What we really cared about was that there were a lot of back room deals with the bigger players
There were lots of problems with spending, and no receipts, and the claiming if invoices twice
We left the BCWI not because of their poor views, but because of the way it was run, who was running it, and what was being represented
I was the first leave. And did not lose anything. Its mandate was reasonable but the directors were ignoring it
Even though active 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 cost $300,000. Wine writers would also be paid to write articles only for large wineries
The BCWI at the start had a certain amount of arrogance. They really did not try to facilitate having meetings where there was an open dialogue and listening to people
The government was irresponsible. BCWI was an arm of the government. BCWI had financial problems with the way money was spent and no accountability
They [Board of Directors] took suggestions … but not from the smaller wineries

B. BCWI’s Export and National Wine Standard Policies (influence problems): selected comments

A few years ago it was a set fee for marketing for everybody based on tonnage. Everyone was part of export [whether they exported or not]
They [BCWI] took some wine to England, and spent a lot of money
That only represents about five wineries in this whole picture
We are already creating wines and selling wines that are internationally recognized and this set of regulations is not going to help us sell any more wine
We like standards, we have standards, and they are good standards
It is not a question of having standards, it is a question of how ridiculous we want to burden everybody with standards
Wine standards are a prickly issue but frankly it is red herring for a lot of people. Most people are making wines to those standards and just do not want to be regulated
If there are wine standards is not the top tier going to be VQA only?
[Other] winemakers would not be able to label their wines as BC or use the Okanagan Valley [label] unless they are top tier
The way they are talking about fees is based on each winery regardless of size. And they are talking about fees being $10,000 and on top of that is auditing fees. What ends up happening is that small producers, the ones that are actually making wines from 100% BC grapes, who are local, who are agri-tourism, what are the true farm gate wineries are not going to be able to participate in these standards
For us wine standards closes access. It becomes economically unviable
What they want to do is take ownership of the name, geographical designations of varietals. So if you area small producer and you do not want to pay the fees, which are going to be significant, then it is going to be illegal to put BC wine, Okanagan Valley on your bottles
VQA Canada tried to trademark names like Okanagan Valley. It would have put us out of business

Source: respondent comments (mostly by small firms and an occasional medium-sized firm).
BC Wine Act required firms to ‘register’ with the BCWI. Yet, until 2001 and the passing of Bylaw 10 to the BC Wine Act, there was no mechanical way of registering! As a firm quizzically noted, ‘we didn’t NOT do something by not registering, no one had ever registered’. In addition, the Act failed to indicate who was supposed to enforce this provision and to provide a practical means of enforcement to ensure industry compliance, such as fines or removal of liquor license (BC Wine Act 1990; Small and medium-sized winery respondents). A respondent present at the founding of the BCWI believed that the BC Wine Act ‘empowered the BCWI to be the authority of BC wine, to develop monitor and enforce standards. But the enforcement mechanism, the government said, is that everything has to be listed…through the liquor board. And if somebody is in violation, we can lift their license, and refuse to list their 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”. In effect, the BCWI had no form of governance over or means of enforcing member compliance. This weakness upset BCWI’s supporters as well as critics. The rights and privileges of membership are only meaningful if non-compliance to collective standards and norms is penalised. Critics saw the confusion over registration as further discrediting the BCWI, and the discordance between logics of membership and influence.

Even after the walk-out by many small firms, the BCWI has struggled with its resource endowment, a residual mistrust of its motives within industry, and constructing a focus acceptable to all sectors of its membership. Members still lead to claims of inequitable power representation within the association. In 2002 the remaining small-sized winery members expressed displeasure of a Board they feel is weighted in favour of the larger winery interests. Several members mentioned that a representative from the BCWI had never visited their place of business. Many respondents from wineries of all sizes were unsure of what the BCWI is weighted in favour of the larger winery interests. Several members mentioned that a representative from the BCWI had never visited their place of business. Many respondents from wineries of all sizes were unsure of what the BCWI actually did outside of certifying wines as VQA, and uncertain as to what the association is advocating politically. Indeed the BCWI still suffers from communication problems as it struggles to aggregate diverse interests that impair the development of a strong logic of membership relationship. For 12 respondents, the BCWI lacks discernible focus. Ultimately, fragmentation of BAs in the Okanagan wine industry occurred because the BCWI failed to meet the obligations of the logic of membership and to properly represent all its constituencies as it sought to elaborate its role as a control organization.

6. Implications for local development

BAs are institutions intimately connected to, and important indicators of, localized industrial evolution. Even though they are rarely impressive organizations in terms of size and direct contributions to jobs, BAs are forums for debate and action that capture important internal dynamics that occur within agglomerations, clusters or networks of firms. Anatomies of BA performance that appreciate why members stay or quit (exit) contribute towards a better understanding of local development as an economic and socio-political process. BAs directly connect to local development as a formally institutionalized external economy. BAs exist to provide (mainly) localized external economies, often based on the voluntary willingness of independent SMEs to share, and possibly fund, some common service(s) related to marketing, lobbying, information exchange and forums for debates. BA fragmentation indicates limits to this cooperation and the problematic, dynamic and contested nature of external economies. In Hirschman (1970) terms, BAs seek to summarily or collectively represent and/or shape local voices, they fragment because local voices are multi-faceted and in some way feel misrepresented.

As a way of probing their behaviour, Schmitter and Streeck (1981) and Van Waarden (1992) framework for interpreting BAs as representative and/or as control institutions that have distinctive strategies and structures ('domains and resources' and 'structure and activities') is analytically useful for highlighting local as well as organizational evolution. The characterization of BAs in terms of representation and control helps understand their rationale and inherent tensions (see also Bennett, 2000). As representative institutions BAs (democratically) reflect industry evolution as consensus among members; as control institutions BAs pro-actively shape industry evolution as mandated in accordance with the voting power of membership. Thus, in terms of origins and performance, BAs emphasize that the nature of external economies features choices and debates. Moreover, the value of BAs is difficult if not impossible to measure in any precise way, even for individual members; by implication their contributions as external economies are difficult to assess and not without ambiguity.

With respect to research design, this paper focused on one particular regional-sectoral context setting and on one main BA, the BCWI. The advantage of this approach is to explicitly recognize the highly contingent nature of BA performance and the role of local particularities as they unfold over time. The origins, evolution and fragmentation of the BCWI, for example, has to be related to specific crises and events. In this case, the BCWI was created by the signing of free trade agreements, external events over which it had no influence whatsoever, and its fragmentation was stimulated by debate over one particular issue, that of national standards, that was internally driven and divisive. From this perspective, comparative analyses of some kind would be potentially useful to assess to what extent BAs contribute to problem solving at times of crises or fragment and even contribute to local problems. In the case under consideration in this paper, the free trade crisis stimulated domain firms to form a common bond, while the later internally generated crisis by definition divided them. Unfortunately, the fragmentation was so contentious that it may have reduced the chances of any common collective efforts in the future in the face of another externally imposed crisis.
In terms of organizational type, the evolution of the BCWI differed from Van Waarden’s (1992) view that BAs typically shift from representative to control organizations. The BCWI (and related BAs) reversed this tendency. Consistent with Bennett’s (2000) population analyses of BAs, the fragmentation of the BCWI invoked a range of motivations. For the BCWI, member failure was not a factor (the most important category in Bennett’s study) but concerns over the services provided or being promoted, as well as funding, are important as Bennett had found. In the BCWI’s case, fragmentation was made all the more acrimonious due to questions of personal integrity about its leadership. The BCWI’s case, fragmentation was all the more acrimonious over questions of ‘internal politics’ or more strictly speaking over questions of personal integrity about its leadership. In the fragmentation of the BCWI, size of firm was a key factor, as most of those leaving were the smaller firms. Economic geography of course has long found the spatial relation to BAs, as size captures significant change in organizational structures, mandates and motivations. In the present study, the fragmentation that reflected philosophical dissonance among members over the BCWIs failure to match representative and control functions, also coincided with differing global–local perspectives. On the one hand, the dissenting smaller firms and ‘breakaway’ BAs favoured the promotion of a locally differentiated wine industry serving local markets as the basis for competitiveness while the remaining (and new) members the BCWI envisioned wider (‘global’) integration with national standards and export marketing efforts as the appropriate evolutionary trajectory. As the government withdrew funding, the BCWI inevitably became a less active BA.

In policy terms, this study tends to agree with Bennett’s (2000) claim that the potential of BAs are not being fully realized or properly appreciated. For a few years after 1991, the BCWI revealed this potential as it helped the Okanagan wine industry to effectively restructure with a high value product supplied by a larger population of firms and become an important component of agri-tourism in the region. Fragmentation, however, has left the industry without a clear, strong voice and currently BAs operate, not without success, but with limited funding and scope for action. In this regard, Bennett’s plea for more reliable government funding makes sense; at not that great a cost, government funding would provide an added incentive to firms to cooperate. It should also be recognized that the BCWI, as is typically the case, did not fragment simply or largely due to funding issues. For many members the BCWI lost legitimacy. Moreover, in this regard, the government is partly to blame since it sanctioned an organizational structure that permitted non-transparent, unaccountable behaviour and some members became disillusioned. If BAs are to provide functions from time to time that only serve part of their membership they need to retain legitimacy if all members are to remain loyal. In more general contemplations of cooperation and trust, among BAs and other institutions, the issue of legitimacy needs to be given more thought.

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