

Dynamic capabilities in the context of Brexit and international wine business: An exploratory two-country study

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Abstract

This exploratory study proposes a conceptual framework based on the dynamic capabilities approach (DCA) to advance the understanding of firms' responses to turbulence, illustrated by the Brexit phenomenon. The case of wine producers is examined, with particular focus on perceived impacts of and responses to Brexit among wineries predominantly involved in exports. Data from 281 mainly micro and small exporting Italian and Spanish winery firms were gathered. Various differences emerged in how both groups of businesses perceived Brexit's impacts, and how they planned to respond. Some of these ways revealed principles associated with the DCA, such as possessing critical organizational resources, notably, tangible, intangible, and human to create capabilities. Furthermore, while various comments denoted indecisiveness and uncertainty, others underscored the vital need to exploit opportunities through engaging with new international consumer markets. Overall, the proposed framework facilitates an in-depth understanding of winery entrepreneurs' strategic behavior in response to turbulent situations.

Keywords: Brexit, international business, dynamic capabilities, small/micro winery owners/managers, strategies.

Introduction

In various nations, wine production contributes substantially to socioeconomic wealth and regional development; such contribution is particularly illustrated in the cases of Italy and Spain. Data from 2015 (Wine Institute, 2017) indicate that these nations are two of the world's three main wine producers. In 2015, Italy had the largest share in production, with 17.4 percent, while Spain was third, with 13.1 percent (Wine Institute, 2017). Similarly, information from the International Organisation of Vine and Wine (OIV) for 2015 reveals that Spain was the world's largest exporter, with 23 percent of the global share or 24 million hectoliters, followed by Italy, with 20 million hectoliters (OIV, 2016). The same year, the level of wine consumption in Italy was third in the world together with that of Germany, while Spain's was the eighth (Wine Institute, 2017). The level of wine consumption in these two nations suggests the potential of the domestic market and its ability to complement sales volumes that come through exporting. In terms of value, the data once again underline the socioeconomic importance of the wine sector. For instance, the value of Italy's production was 5.35 billion, while that of Spain's still represented 2.64 billion Euros (OIV, 2016).

Although the wine industries of both Italy and Spain are dominant players in world wine production and exports, they face significant challenges. In fact, they operate in a highly competitive environment (Bianchi et al., 2014; Overton and Murray, 2016), with the emergence of new players from emerging wine-producing nations (Morrison and Rabellotti, 2017). A more recent challenge that could aggravate the existing fierce competition in the wine market is the outcome of the 2016 referendum in the United Kingdom (UK), or 'Brexit' (Anderson and Wittwer, 2017a), in which the UK voters opted to leave the European Union (EU). For many years, the UK has been one of the world's largest wine consumer markets (Bruwer et al., 2014).

Different reports and academic contributions highlight the economic turbulence and uncertainty that Brexit has created, as well as its potential political and economic consequences (Bachtler and Begg, 2017; Kokhanovskaia, 2017; Matthews, 2017; Revell, 2017; Steinberg, 2017), including for the wine sector (Anderson and Wittwer, 2017a). The UK consumer market is significant for Italian and Spanish wines. In 2015, Italy exported

wines to the UK for a value of 736 million Euros, and Spain for 284 million Euros; they are among the world's four main wine-exporting nations to the UK (Centre for the Promotion of Imports, CBI, 2016). The Spanish Wine Market Observatory (OEMV, 2016) notes that, in 2015, the UK represented Spain's second largest export market. Information from the Wine and Spirits Trade Association (WSTA, 2016) indicates that, together, Italy (41%) and Spain (22%) represent 63 percent of total UK wine consumption- and therefore imports- from the EU. With the price of imported wines already increasing as a result of the weakening of the Sterling against the Euro, a recent news report revealed the initial impact from Brexit (The Guardian, 2017). This financial repercussion suggests that the aftermath of Brexit could result in more turbulence, and have other significant consequences for these nations' wine sector.

To date, the academic literature, including in the fields of entrepreneurship, production, and international business, has not fully addressed the Brexit phenomenon from a sector point of view. Indeed, no studies have investigated how winery entrepreneurs of predominantly exporting firms perceive the consequences of Brexit to be for their sector, or how they plan to respond to this issue. Studying these dimensions will illuminate the understanding of this sector's capabilities to withstand a potentially challenging predicament, with implications for socioeconomic and rural development. Newly gained knowledge will also be useful to such organizations as chambers of commerce or government agencies in developing plans and hands-on initiatives to support this or other sectors. By examining the following research questions (RQs) from the perspective of predominantly exporting micro and small Italian and Spanish winery entrepreneurs, this study makes a first contribution to the academic literature:

RQ1: How do entrepreneurs (owners/managers) from the two nations perceive the impacts of Brexit on the wine sector? Moreover, what could be some specific impacts of Brexit?

RQ2: How could the wine sector in these nations respond to Brexit's impacts? Specifically, what strategies, if any, could minimize such impacts?

Previous research has discussed various ways for organizations to respond to turbulence, including by building organizational dynamic capabilities (e.g., Augier and Teece, 2007; Teece, 2007; Teece et al., 1997). Pettus et al. (2009) recognize that "knowledge of dynamic capability development potentially contributes to multiple literatures including research on... strategic change in uncertain and turbulent environments" (p. 203).

The dynamic capabilities approach (DCA) also fits within the context of the present research, which predominantly focuses on micro and small wineries. Indeed, Borch and Madsen (2007) explained that emphasis on dynamic capabilities is particularly important for entrepreneurial small businesses. Based on the dynamic capabilities literature an additional contribution will be made through the development and proposition of a theoretical framework to gain a deeper understanding of winery operators' response to turbulence (Brexit). Thus, an additional RQ will be addressed:

RQ3: How does the proposed framework support the understanding of winery firm management's responses to turbulence, in this case, Brexit?

Literature Review

Dynamic capabilities: definitions and theoretical background

According to Augier and Teece (2009), in order to succeed in today's economy, managers must "behave in an intensely entrepreneurial manner" (p. 411), developing the capacity within their organization to identify and exploit opportunities. Moreover, depending on the nature of competitive forces or opportunities, managers must then seek to reconfigure or

transform their firms' capabilities, also known as "dynamic capabilities of the enterprise" (Augier and Teece, 2009, p. 411). Essentially, dynamic capabilities are firms' ability to reconfigure their routines and resources in ways that are deemed appropriate or envisioned by their main decision-makers (Zahra et al., 2006). Reconfiguration is associated with procurement of new resources (Capron et al., 1998), and with "the revamping of routines" (Teece, 2007, p. 1336).

Dynamic capabilities have been also defined as those "firm-specific capabilities that can be sources of advantage" (Teece et al., 1997, p. 510). The word 'dynamic' underlines "the capacity to renew competences... to achieve congruence with the changing business environment" (Teece et al., 1997, p. 515). Capabilities, on the other hand, refers to the important role of strategic management in integrating, adapting, or reconfiguring external or internal functional competences, resources, organizational skills and match the demands of changing environments (Teece et al., 1997). Importantly, dynamic capabilities usually involve the long-term commitment of specialized resources (Winter, 2003). Examples of dynamic capabilities include alliancing, strategic decision making that contribute to value creation for businesses operating in dynamic markets, and new product development (Eisenhardt and Martin, 2000; Helfat and Peteraf, 2009; Winter, 2003).

Teece et al. (1997) developed the DCA to help explain how combinations of resources and competences can be deployed, developed or protected. Furthermore, the combination of organizational resources, or firms' productive assets, ranging from physical and financial (tangible), technological or cultural (intangible), or in terms of know-how and skills (human assets/resources), helps create organizational capabilities (Grant, 2016). The DCA extends from the resource-based view (RBV) of the firm (Ambrosini and Bowman, 2009; Easterby-Smith and Prieto, 2008; Helfat and Peteraf, 2009).

This theory predicates the importance of firm resources, characterized by heterogeneity, imperfect mobility, and that are valuable, rare, imperfectly imitable and non-substitutable, as precursors of competitive as well as sustained competitive advantage (Barney, 1991). Along these lines, the DCA underscores the value "of the dynamic processes of capability building in gaining competitive advantage" (Weerawardena et al., 2007, p. 297). According to Teece (2007, 2012, 2014), three fundamental mechanisms or clusters represent the foundations of the theory:

- *Sensing*, or a process of scanning, learning, and creating new opportunities;
- *Seizing*, or mobilizing resources to address these opportunities, for instance, through new processes, services, or products, and
- *Reconfiguring/transforming*, which focuses on continuous organizational renewal.

Concerning the present study, dynamic capabilities are also perceived as a way to address turbulent environments, in helping managers modify, reconfigure or extend "existing operational capabilities into new ones that better match the environment" (Pavlou and El Sawy, 2011, p. 239). Furthermore, they are also intrinsically related to market dynamism, a key factor for firms' evolution (Wang and Ahmed, 2007). Importantly, what determines the success- or otherwise- of dynamic capabilities is how they are used and deployed within specific contexts (Easterby-Smith and Prieto, 2008).

The DCA and empirical research

While it has been argued that the theoretical development of dynamic capabilities is still in its early stages (Helfat and Peteraf, 2009), empirical research has nevertheless demonstrated its applicability in various organizational environments (e.g., Arend, 2014; Ko and Liu, 2017; McKelvie and Davidsson, 2010; Pavlou and El Sawy, 2011). Partly related to the present

study, Villar et al. (2014) adopted the approach to study exporting tile manufacturers in both Italy and Spain among predominantly small and medium enterprises (SMEs). Their findings revealed the mediating role of dynamic capabilities in exports. Indeed, while knowledge management practices such as fostering learning and improvements emerged as a necessary condition, they were not sufficient to improve exporting efforts; instead, they depended upon dynamic capabilities. These findings led Villar et al. (2014) to conclude that dynamic capabilities create favorable conditions for SMEs to improve their export intensity. Another study conducted among SMEs (Borch and Madsen, 2007) developed several categories based on the dynamic capabilities literature, and confirmed the validity of external/internal integration and reconfiguration, learning networks, and resource acquisition capabilities. More recently, Roy and Khokle's (2016) case study of international joint ventures identified the stages of sensing and sizing as fundamental in allowing firms to build dynamic capabilities, while reconfiguring/transforming was incorporated within seizing. In their case of the Chinese automotive industry, Guo et al. (2014) provide a different perspective to the development of dynamic capabilities. Indeed, Guo et al. (2014) concluded that while institutional endowments manifested through government support might enable firms' rapid startup of entrepreneurial activities, they may also stifle their development and potentially their dynamic organizational capabilities.

In contrast, the theoretical value of the DCA has been examined to a very limited extent in the wine business literature. In one of the three identified studies, Cherubini Alves et al. (2011) used a case study method, assessing two wineries. They noticed the operationalization of various tenets of the DCA, including building, reconfiguring, and integrating external and internal competences (e.g., innovative practices, marketing focus, adding value) in response to changing environments in one winery. However, the second winery's ownership used a different approach. In fact, decision-making, and strategic actions were centralized under the role of the owner and chief winemaker, seeking to prioritize the element of tradition in the wine product (Cherubini Alves et al., 2011).

A second study, which focused on one-firm, Tondolo (2010) identified two main dynamic capabilities that applied in the context of the winery, notably, market management, and the management of resources in the value chain. Moreover, the firm's market management aligned with its internal resources and capabilities, allowing the firm to implement an international strategy to enter foreign markets (Tondolo, 2010). Such strategy was based on pursuing familiar markets to sell its quality wines, subsequently expanding to other markets. The firm's market management strategy, coupled with the appropriate exploitation of internal resources and capabilities, for instance, in the form of quality-driven approaches, had clear implications for its value chain.

In the third study, Dries et al. (2014) surveyed 115 winery managers. Their findings highlighted the operationalization of dynamic capabilities in four ways. First, "intensive information exchanges with suppliers (upstream partners)" (p. 157) were likely to enhance "open innovation in the idea generation phase" (p. 157). Second, information flows between downstream players (retailers) and wineries stimulated open innovation in the commercialization stage (Dries et al., 2014). The third way was based on the specific level of knowledge within the firm, while the fourth was represented by various skills within the workforce (educational, foreign languages). These skills played a key role in explaining wineries' degree of openness (Dries et al., 2014). This last finding is partly in agreement with Winter (2003) who explains that dynamic capabilities typically involve specialized human resources "who are committed full time to their change roles" (p. 994).

The proposed theoretical framework

Siggelkow's (2007) discussion of theory in case study research provides key insights that were considered in the development of the proposed theoretical framework (Figure 1). Siggelkow (2007) mentions two caveats in the process of theoretical development. The first underlines that both models and theories always entail simplifications, and as a result, there will always be instances where theories do not hold accurately (Siggelkow, 2007). However, it is the author's onus to persuade readers that this violation is insight-provoking and important.

Second, there is a challenge for researchers to develop "a new conceptual framework that does not overdetermine the phenomenon" (Siggelkow, 2007, p. 21). Theories are helpful if they can go beyond idiosyncratic cases; consequently, to develop useful theory, researchers need to make simplifications and choices (Siggelkow, 2007). Based on Siggelkow's (2007) premises, the present study proposes a framework that takes into account the element of simplification alongside the choices that needed to be made with in regards to the adopted theory (DCA).

According to McKelvie and Davidsson (2010), "dynamic capabilities and their underlying resource components are inherently very challenging to research in a systematic fashion" (p. 64). Not surprisingly, different authors (e.g., Borch and Madsen, 2007; McKelvie and Davidsson, 2010; Pavlou and El Sawy, 2011; Villar et al., 2014) have focused on specific components of the DCA. This study will make a contribution within this context of DCA-related components, notably, by proposing a framework to facilitate understanding into the wine sector's response to turbulence, in this case, in relation to Brexit.

Methodology

This exploratory study is concerned with firms' responses to a turbulent event (Brexit), using the case of predominantly exporting wineries operating in Italy and Spain. Exploratory research, which requires the ability to obtain information and develop explanations that are theorizing, is adequate in cases where "the research problem is badly understood" (Ghauri and Grønhaug, 2005, p. 58). Furthermore, by adopting the DCA, the study examines the perceptions of winery operators concerning how Brexit could impact their sector, and how wineries are to respond. These two dimensions correspond to the study's unit of analysis, or "the idea of a bounded set of elements comprising the entity which is the focus of research" (Gronn, 2002, p. 444).

The study also employs inductive analysis, an approach that makes use of thorough readings of raw data to develop themes, models, or concepts based on researchers' interpretation (Thomas, 2006). Inductive reasoning is associated with a theory-building process, whereby researchers begin with observations of particular areas of the research, and then seek to determine generalizations concerning the phenomenon being investigated (Hyde, 2000, p. 83).

In addition, and in alignment with Patton (2015) a purposeful sampling method was chosen. Purposeful sampling entails strategically choosing information-rich cases that, by their substance and nature, will shed light into the question under examination (Patton, 2015). Moreover, it consists of intentionally recruiting or selecting individuals "who have experienced the central phenomenon or the key concept explored in the study" (Creswell and Plano Clark, 2011, p. 415). The selection of winery owners/managers as participants was perceived to achieve the objective of acquiring data from 'information-rich cases'; such selection also conforms to the notions of exploratory research and an inductive approach.

In May of 2017, an in-depth search of winery contacts in both Italian and Spanish websites, including in regional association and designation of origin websites, resulted in the identification of 2,273 winery email addresses, (Italy: 1,050, Spain: 1,223). In the following days, a message was sent to these wineries, indicating the nature of the research, and asking

recipients to partake in the study. The message was edited in both Italian and Spanish by one member of the research team, who is fluent in these languages. A URL link added at the end of the message directed potential participants to an online questionnaire.

In line with early research (Van Selm and Jankowski, 2006), this medium was fundamentally considered as it is especially useful when populations under examination are scattered across vast geographic regions. Given that the objective of this study was to gather data across Italy and Spain, the online questionnaire provided the best medium for data collection from the two countries based on accessibility and cost-effectiveness. Travelling to different wine regions to interview potential participants would have required significant resources, including time and costs, that were not available before, during, and after the study. The decision to gather data through an online questionnaire is also reflected in contemporary wine research that employed an online platform to collect data from United States wineries (Thach, Lease, and Barton, 2016).

For the purpose of this study, the first section of the questionnaire queried participants about some characteristics of their winery and themselves, for instance, their role at the winery, the winery's size, and whether they exported or not (Table 1). The second section provided spaces for participants to type their perceptions concerning the following questions:

- Question 1: How do you perceive the impacts of Brexit on the wine sector (e.g., negative / positive impacts)? Specifically, what could those impacts entail?
- Question 2: How could your nation's wine sector respond to impacts caused by Brexit (negative/positive)?

These questions were developed reviewing academic literature that highlights the significance of dynamic capabilities to adapt to turbulent environments (e.g., Ambrosini et al., 2009; Daniel and Wilson, 2003; Dixon et al., 2014; El Sawy and Pavlou, 2008; Pettus et al., 2009; Pavlou and El Sawy, 2011; Sher and Lee, 2004).

While there are both advantages and disadvantages to open-ended data gathering, Roberts et al. (2014) explain that open-ended responses “provide a direct view into a respondent's own thinking” (p. 1065). With open-ended questions, the researcher is seeking meaning and insights from an individual's own perspective and with it his/her unique response to a question (Taylor-Powell and Renner, 2003). Furthermore, the qualitative approach, which seeks to elicit understanding from participants' perspective (Taylor-Powell and Renner, 2003), aligns with the inductive approach chosen in this study. Indeed, Thomas (2006) posits that the inductive approach represents “a systematic procedure for analyzing qualitative data” (p. 238).

During the months of June and July of 2017, two additional reminders were sent to wineries. In total, 159 and 122 useable responses were obtained from Spanish and Italian wineries, respectively, for a total of 281 responses, an overall 13.2 percent response rate (281/2,121). The bulk of responses was gathered in the first four weeks of the data collection phase (235, 83.6%); when comparing the verbatim comments of responses received within the first four weeks and thereafter, similar response patterns were noticed.

While overall the response rate is modest, it is in line with earlier wine business research gathering responses through online surveys. For instance, Cholette' (2010) research among Californian wineries elicited a 10.5 percentage response rate, while Bruwer and Johnson's (2010) study of winery consumers in the United States generated a 5.7 percent. More recently, Duarte Alonso and Bressan (2015) achieved an 11.5 percentage response rate in their investigation of Italian wineries.

The responses received by participants ranged from short answers to extensively detailed comments regarding the impact of Brexit. On average, the verbatim comments participants

provided ranged between 10 and 100 words. The following sections present various excerpts of those verbatim comments that illustrate the elaboration and depth of participants' perceptions.

The collected data were subsequently translated into English, and analyzed employing qualitative content analysis. This research method entails the (subjective) interpretation of text data, identifying and coding patterns and themes through a "systematic classification process" (Hsieh and Shannon, 2005, p. 1278). In reviewing previous research, Baur et al. (2018) make several useful points in the context of content analysis. In referring to Insch et al.'s (1997) contribution, Baur et al. (2010) posited that researchers choose various methodologies, including content analysis that help inform other, more traditional quantitative approaches. Similarly, in considering the study conducted by Insch et al. (1997), Baur et al. (2018) emphasized the usefulness of content analysis, in enabling the quantification of qualitative data. To strengthen the consistency of the content analysis process in the present research, all members of the research team were involved, which allowed for not only consistency in coding but also cross-checking to ensure that issues identified by participants were examined in the appropriate light.

Subsequently, in accord with Welsh (2002), the data were exported into the computer assisted qualitative data analysis software (CAQDAS) NVivo (version 11). Coding was undertaken by all members of the research team where a review of nodes was conducted at the end of the process. Any outliers or differences between coding were examined and removed or normalized where required. A finalized ideology of each node was then examined against the coding to ensure consistency and accuracy. The software was also utilized in the process of identifying various thematic nodes categorized by word similarity. Selected verbatim comments in the next sections will be abbreviated (e.g., Spanish Participant 1: SP1; Italian Participant 2: IP2). Finally, to assess any associations in the demographic and qualitative data between the two groups, for instance, in terms of their level of exports or their perceived impacts of Brexit, Pearson's Chi-square tests were employed as appropriate.

Basic demographic characteristics: Participants and firms

Table 1 shows that the owner / non-owner split was similar among Spanish participants, while in the case of Italy, owners were clearly the majority. The large majority of the participating wineries (267, 95.0%) were micro or small in size, or those firms employing fewer than 10, and between 10 and 19 individuals, respectively (European Commission, 2003). Differences were noticed between the age of the winery and the country, with 95.9 percent of Italian wineries operating for over a decade, as compared to 77.4 percent of Spanish wineries. Similarly, a larger percentage of Italian wineries (95.9%) than Spanish (88.1%) were exporting outside national boundaries. Differences were also found in terms of percentage of exports; for instance, 50 percent of Italian wineries were exporting 50 or more percent of their wines to foreign markets, compared to 37.1 percent of Spanish wineries. Finally, 26.2 percent of Spanish wineries were exporting to other Spanish regions, compared to only 9.8 percent of Italian wineries conducting exports within Italy, clearly suggesting the much stronger focus on international exports among members of this last group.

Results

RQ1: Perceived Brexit-related impacts.

The employed content analysis revealed a number of themes and response patterns (Table 2). The resulting nodes clustered by word similarity, which combined the answers from both groups of winery entrepreneurs, provided an alternative way of visualizing the different themes that emerged. The analysis identified that, at the time of the study, 17 (10.7%) Spanish and 14 (11.5%) Italian wineries were not exporting their wines to the UK. As

illustrated, the main sub-group of participants, with nearly one-third (34.2%) of responses, perceived that Brexit would have major impacts on their sector.

Table 1 Here

Table 1: Basic demographic characteristics of participants and their wineries

Characteristics	Spain		Italy	
Role of the participant	n	%	n	%
Owner	83	52.2	77	61.1
Non-owner (e.g., marketing/sales, export manager, director, winemaker)	76	47.8	45	36.9
Number of employees	n	%	n	%
No employees	17	10.7	7	5.7
Between 1-9	101	63.5	87	71.3
Between 10-49	32	20.1	23	18.9
Between 50-249	7	4.4	3	2.5
250 employees or more	2	1.3	2	1.6
Age of the winery	n	%	n	%
Less than 5 years	14	8.8	0	0.0
Between 5-10 years	22	13.8	5	4.1
Between 11-20 years	38	23.9	18	14.8
Between 21-40 years	35	22.0	34	27.9
Between 41-60 years	10	6.3	27	22.1
61 years or older	40	25.2	38	31.1
Wineries' sales (locally versus outside/abroad) *	n	%	n	%
Yes, we export outside (the country)	140	88.1	117	95.9
Yes, we export to other regions in our country	82	51.6	49	40.2
We only sell our wines locally (for instance, on-site, within our region)	14	8.8	5	4.1
We are working toward exporting our wines (e.g., in 12-24 months' time)	8	5.0	2	1.6
Percentage of sales according to market/destination	n	%	n	%
76% or more	21	13.2	26	21.3
Between 50-75%	38	23.9	35	28.7
Between 10-49%	62	39.0	49	40.2
Less than 10%	38	23.9	12	9.8
Percentage of exports to other regions (within Italy/Spain)	n	%	n	%
76% or more	11	6.9	5	4.1
Between 50-75%	31	19.5	7	5.7
Between 10-49%	71	44.7	83	68.0
Less than 10%	45	28.3	27	22.1
Missing response	1	0.6	0	0.0

* More than one answer was possible.

From this group, seven Spanish and four Italian participants highlighted direct and tangible consequences from this event. The following selected comments underscored that, while such outcomes varied, the predominant theme was the reduction in exports and consequently sales:

SP1: We had to made substantial efforts and not increase our prices, as it is commonly done each year, working with our UK importer so that end consumers are not affected.

SP2: ...UK importers who were loyal... after Brexit some no longer buy from us because prices now are higher for them. Consequently, our sales to this market are going to decrease substantially or end altogether.

IP1: *I have lost one UK importer post Brexit due to the price increases as a result of the falling Sterling against the Euro.*

IP2: *...all the [UK] importers are complaining because of the fall of the GBP after Brexit, so they have to spend more than usual for importing wine; consequently they are also delaying payments.*

Clear differences emerged between the two groups concerning the ways in which they perceived the impacts of Brexit. As shown (Table 2), a much higher percentage of Spanish participants indicated that Brexit would significantly affect their sector. To further assess the full extent of such difference between Italian and Spanish wineries, a Chi-square test was run between participants' responses and their country group. The resulting Pearson χ^2 (1, n=281) = 10.355, (p=0.001) revealed a statistically significant difference between the perception of major impact, again, underlining the stronger concern among Spanish participants. In contrast, a higher percentage of Italian participants considered the impacts of Brexit to be minor; this difference was also statistically significant (χ^2 (1, n=281) = 6.826, (p=0.007). Some selected comments from participants who perceived limited to no impact underscore their confidence in overcoming this challenge:

SP3: *It [Brexit] will not affect my firm. Our exports to the UK will continue.*

SP4: *We will adapt; it does not represent any significant problem for us.*

IP3: *To date, our sales and relationships with our UK importers have not been affected.*

IP4: *We have not noticed any great impact yet.*

While not statistically significant, an additional clear difference was noticed between the two groups, with a higher percentage of Spanish participants considering a substantial increase in trade barriers and in bureaucracy, due to new rules and regulations to export to the UK (Table 2). This concern is in line with recent literature, which highlights the potential of newly erected tariff barriers between the UK and EU (Sampson, 2017), especially in case of a 'hard Brexit' (Baley et al., 2017).

Other perceived impacts further illustrated variations in the way both groups of participants interpreted Brexit's outcomes; in both instances, the percentages among Spanish respondents were higher. First, perceived increases of costs for importers were a concern. Based on previous comments (e.g., SP1, IP1), these negative perceptions had become reality for at least 11 participants. Second, there was a view that, as a result of Brexit, there would be disadvantages when trading with the UK against other, mainly New World wine-producing nations. As the following comments underscore, participants recognized the price-competitiveness of these nations' wines, and different treatment due to some countries' historic, cultural and other ties with the UK. They also believed in an increasing interest among UK importers to look for alternatives as a consequence of Brexit:

SP5: *UK importers might opt to buy more Australian wines than from the EU...*

SP6: *There might be an inclination to consume wines from the New World, especially Chile, Argentina, Australia, USA...*

IP5: *Brexit favors a distancing of UK from products from the European continent; instead, it favors the increasing presence of products from the Commonwealth [Australia, New Zealand South Africa], as well as from the USA and Chile...*

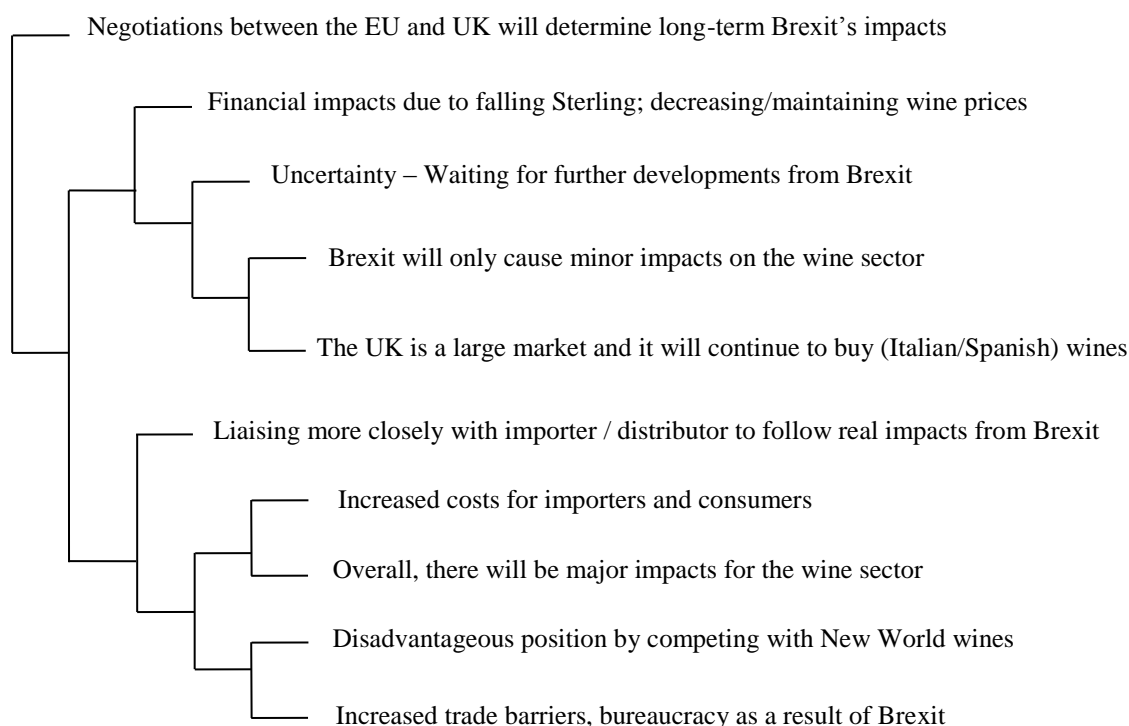
Table 2 Here

Table 2: Content analysis - Main perceived impacts of Brexit

Main responses – Themes *	Spain		Italy	
Brexit will cause major impacts / disruptions to the wine sector	67	42.1	29	23.8
Brexit will only cause minor impacts / disruptions to the wine sector	36	22.6	45	36.9
As a result of Brexit, there will be more trade barriers and bureaucracy, which will slow down trade, and cause disruptions	34	21.4	18	14.8
Under Brexit, prices will become more expensive for importers, with potential impacts on consumers' willingness to purchase wines	23	14.5	4	3.3
After an initial confusion stage, the UK market will continue to favor our wines	19	11.9	11	9.0
Brexit will bring disadvantages to our sector, as the UK might increase trade with New World wine nations, including Commonwealth nations	15	9.4	5	4.1
Brexit is causing uncertainty, for instance, within our sector and among UK importers/distributors	13	8.2	11	9.0
The falling Sterling will have impacts on wine imports; it may force us to lower or maintain current prices	11	6.9	9	7.4
Concerns over Brexit is forcing us to liaise with UK importers continuously to monitor the developments	9	5.7	1	0.8
The future impacts of Brexit on our sector will depend to a large extent on UK-EU negotiations	6	3.8	3	2.5

* More than one response identifying more than one theme was possible

Content analysis - Nodes clustered by word similarity



While overall Italian and Spanish participants differed in their perceptions of Brexit, the results (Table 2) suggest agreement concerning other perceived impacts. For instance, both groups seemed to concur with the notion that the UK would go through an initial turbulent period, subsequently adjust, and a 'business as usual' trade relationship would ensue. Finally,

while expected, Italian and Spanish participants also appear to agree equally with the view that Brexit had brought uncertainty to their sector and to UK importers.

RQ2: Responses to Brexit's perceived impacts.

The content analysis undertaken concerning RQ2 also uncovered various themes based on participants' responses. The results (Table 3) first indicate that, for both Italian and Spanish wineries, the need to find new markets in response to Brexit was their main form of response; a similar percentage was noticed among Italian respondents.

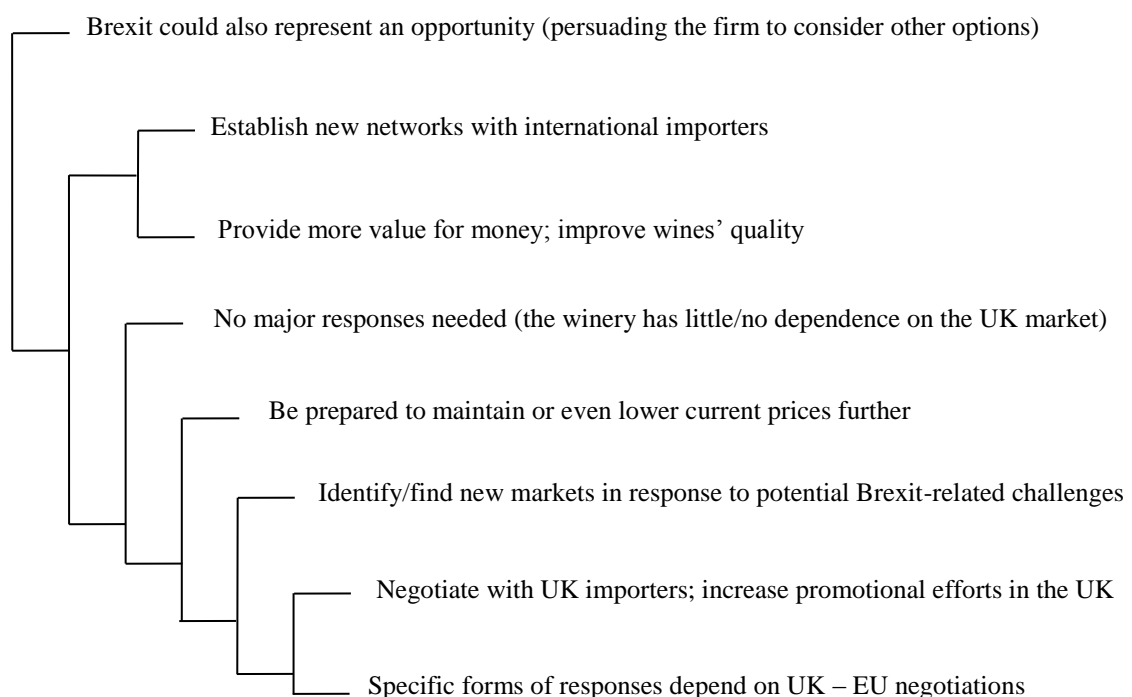
Table 3 Here

Table 3: Content analysis - Main perceived ways to respond to Brexit *

Main responses – Themes **	Spain		Italy	
Identify/find new export markets	38	23.9	28	23.0
No major responses needed (continue strategy as is; the winery has limited/no reliance on the UK market)	35	22.0	50	41.0
Specific forms of responses depend on UK – EU negotiations	34	21.4	15	12.3
Negotiate with UK importers; increase promotional efforts in the UK	24	15.1	17	13.9
Be prepared to maintain or even lower current prices further	22	13.8	3	2.5
Provide more value for money; improve wines' quality	15	9.4	14	11.5
Establish new networks with international importers	13	8.2	3	2.5
Brexit could also represent an opportunity (e.g., persuading operators to consider other options, or become more innovative, dynamic)	4	2.5	3	2.5

* 18 Spanish and 16 Italian participants indicated 'I don't know' in their answers. **More than one response identifying more than one theme was possible

Content analysis - Nodes clustered by word similarity



Several verbatim comments further emphasize participants' proposition:

SP7: *Broadening our export horizon, considering other EU markets.*

SP8: *I see no other way than to find new export markets.*

IP6: *We will have to find new markets, where we have not exported yet.*

IP7: *Looking for outlets in other markets.*

While the majority of participants (63%) perceived that no major responses were needed, clear differences were noticed between the two groups. In fact, a higher percentage of Italian participants appeared to be much less concerned about the need to respond to Brexit-related challenges than their Spanish counterparts ($\chi^2 (1, n=281) = 11.321, (p=0.001)$).

Further analysis was undertaken to determine reasons that would explain Italian participants' apparent less concern with the need to take action in response to Brexit. For example, comparing the higher percentage of Italian wineries exporting outside the country with that of Spanish wineries, a much higher involvement in exports among Italian wineries was noticed (Pearson $\chi^2 (1, n=281) = 5.448, (p=0.015)$). In contrast, Spanish wineries were much more involved in exports to other parts of their country than were Italian wineries ($\chi^2 (1, n=281) = 10.355, (p=0.001)$), further confirming that Italian wineries were much more active in foreign markets, while Spanish participants relied more on the domestic market.

Clear differences were also revealed concerning wineries' percentage of exports and country of origin. Notably, only 12 (9.8%) Italian wineries exported less than 10 percent of their wine sales abroad, compared to 38 (23.9%) Spanish wineries. In contrast, for 21.3 percent of Italian wineries, their international exports represented 76 percent or more of their total sales, compared to 13.2 percent of Spanish wineries. This difference was also statistically significant ($\chi^2 (3, n=281) = 5.448, (p=0.012)$).

An additional comparison was made between percentages of international wine exports and participants' perceptions that Brexit required no major responses based on country. In the case of Italian wineries, half (25, 50%) of those who answered in such way were exporting at least 50 percent of their wines internationally; this result was statistically significant ($\chi^2 (3, n=122) = 7.918, (p=0.048)$). A similar outcome ($\chi^2 (3, n=157) = 8.701, (p=0.034)$) was noticed among Spanish wineries. In fact, of the 35 participants who perceived that no major responses were needed, 20 (57.1%) were exporting at least 50 percent of their wines internationally already.

Due to confidentiality reasons, participants were not asked to identify their main export markets, or indicate the number of countries they were exporting to. However, and although expected, the differences illustrated above suggest that, by engaging in alternative international markets, Brexit's impacts will be perceived as negligible. Consequently, no significant needs in response to Brexit were perceived among many Italian participants. Several comments further reinforced the importance of executing various strategies, including diversification, engagement, product improvements, and/or continuous monitoring of existing wine markets to maintain these or penetrate new ones:

SP9: *We are diversifying our sales. In case our sales to the UK decrease, we could try and compensate them with sales to other markets.*

IP8: *Improving the quality of our wines. Keeping up-to-date with the demands of the UK markets.*

Part of the above findings are in line with contemporary research exploring sustainability, resilience and adaptive responses to challenges in the wine sector. Notably, Golicic et al.'s (2017) four-country study revealed the significance of experimenting, for instance, in

improving product quality, as well as organizational design and processes. Similarly, Duarte Alonso and Bressan's (2015) investigation among Italian wineries underscored the need to make quality improvements, diversify current consumer markets, and improve communication skills (learning foreign languages), which suggests the intention to consider and engage with international clients. More recently, Duarte Alonso's (2017) examination of Spain's Cava wineries found that participants perceived a growing need to extend their export horizon. This need not only lead to considering major consumer markets (e.g., Europe, North America), but also emerging ones (e.g., Latin America), or even traditional consumer markets (France) that had not been targeted before.

Furthermore, a higher percentage of Spanish than Italian participants (21.4% versus 12.3%) perceived the importance of UK-EU negotiations as a vital initial step to find adequate responses to Brexit ($\chi^2(1, n=281) = 3.961, (p=0.032)$). The following comments emphasized some participants' points of view concerning negotiations between the EU and the UK. Again, these were perceived as crucial in order for them to anticipate and be prepared for potentially radical changes in trade:

SP10: *I think both UK and EU could work on implementing a trade agreement, especially regarding the wine sector, in which the UK is essentially an importer...*

IT9: *We need to identify what could be some of the new rules that will dictate UK-EU trade relations.*

IT10: *We need to find out how the UK market will operate once it leaves the EU, specifically, under what import tax they will trade.*

A final finding illustrated that Spanish participants considered negotiating their prices, including by lowering them, as a way to respond to Brexit's impacts much more than did their Italian counterparts. Closer examination revealed that 12 (54.5%) of the 22 entrepreneurs who would undertake such an approach were currently exporting at least half of their wines outside Spain. Thus, regardless of their export volume, this group of participants perceived making financial sacrifices to maintain an export market that is close-by.

The applicability of the proposed framework

According to Humphreys et al. (2015), "when crafting conceptual contributions" (p. 1395), exemplary elucidations emerging from cases can be of particular value. These authors also argued that their interpretative analysis of a chosen historical case allowed them "to model a narrative" (p. 1398). These notions were equally applicable to the present study, notably, through its various alignments in identifying the proposed framework (Figure 1) against findings that were based fundamentally on the narratives drawn from the research participants. These alignments are in accord with the inductive approach chosen in this study, whereby a model emerged from interpreting raw data (Thomas, 2006).

The alignments also underscored the framework's usefulness in developing and enhancing a deeper understanding of the links between the wine sector (particularly micro and small winery firms), a turbulent event, dynamic capabilities and perceived responses. These links are also in agreement with Whetten's (1989) suggestion that relationships, as opposed to lists [of variables] constitute "the domain of theory" (p. 492-493). Furthermore, the links fit with Gioia and Pitre's (1990) conceptualization of theory building, namely, the cycle or process by which theoretical representations are tested, refined, and generated.

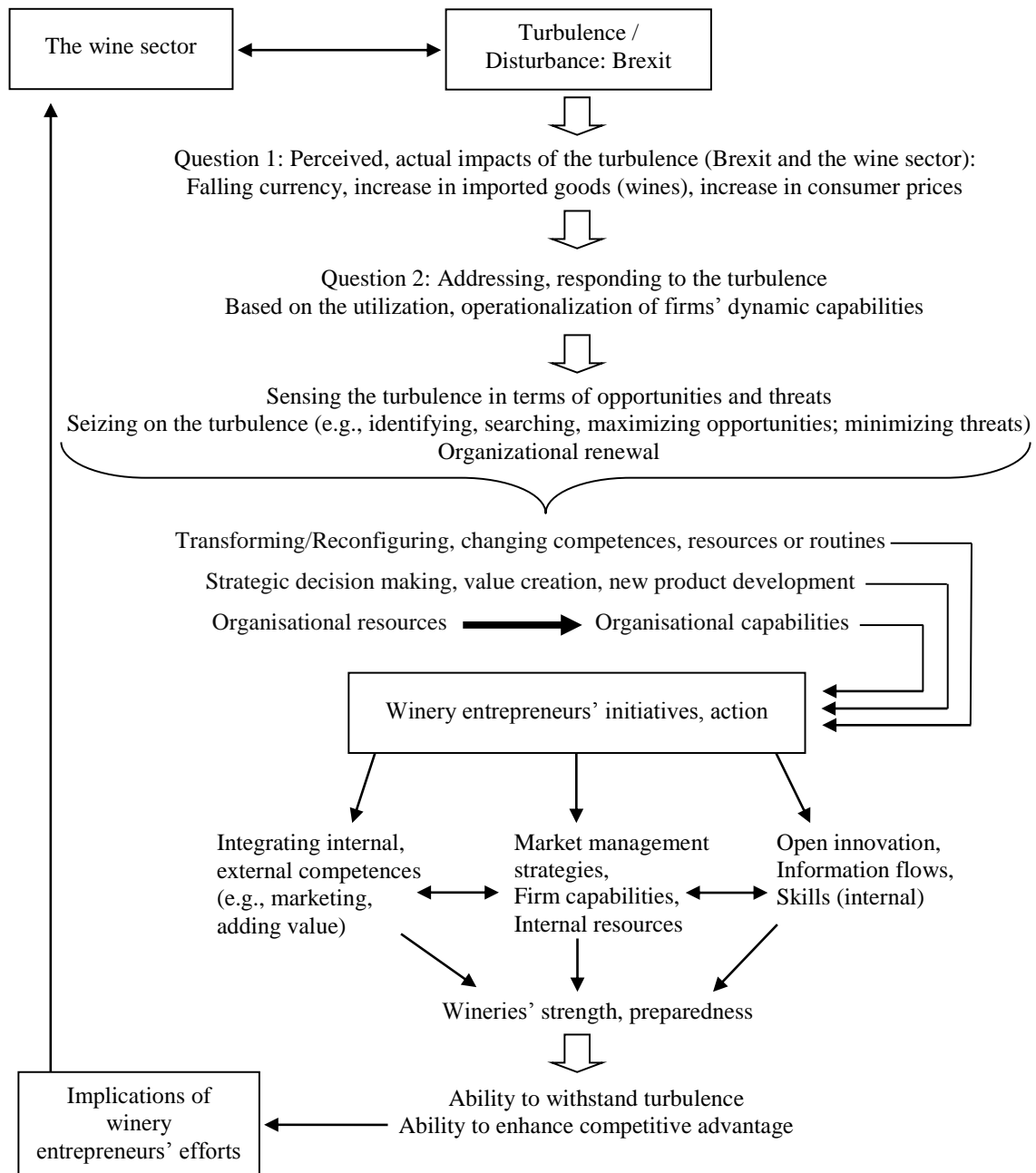
As illustrated (Figure 1), and as supported by recent news (The Guardian, 2017), the occurrence of an event (Brexit) can lead to rapidly changing situations (Question 1). This stage is demonstrated in the falling value of the UK currency, with direct effects on imported

wine prices (Anderson and Wittwer, 2017a). The following stage is aligned with Teece (2007), who developed a paradigm depicting the foundations of dynamic capabilities and business performance. This framework includes three particular clusters, which in the present research are suggested as critical in addressing turbulent or rapidly changing environments: sensing, seizing and managing threats, transforming, or reconfiguring (Teece, 2007, 2012).

Figure 1 Here

Figure 1: Turbulence and dynamic capabilities in the context of the wine sector

Sources: Anderson and Wittwer, 2017; Capron et al., 1998; Cherubini Alves et al., 2011; Dries et al., 2014; Easterby-Smith and Prieto, 2008; Eisenhardt and Martin, 2000; Grant, 2016; Helfat and Peteraf, 2009; Pavlou and El Sawy, 2011; Teece et al., 1997; Tondolo, 2010; Winter, 2003; Zahra et al., 2006; Weerawardena et al., 2007



To address and respond to the turbulence (Question 2), the core principles of dynamic capabilities, including reconfiguring and changing competences, resources or routines (Capron et al., 1998; Easterby-Smith and Prieto, 2008; Teece, 2007) are also considered in the framework. This cluster should be reinforced by considering some specific forms of dynamic capabilities, for instance, strategic decision making, or new product development, as key elements of value creation (Eisenhardt and Martin, 2000; Helfat and Peteraf, 2009; Winter, 2003). Furthermore, organizational resources (e.g., tangible, intangible) can lead to creating organizational capabilities (Grant, 2016) that in turn can help address the demands of changing business environments (Teece et al., 1997), and therefore turbulence.

In support of the above notions, and as part of winery entrepreneurs' responsive action, various key capabilities identified in wine business research were incorporated into the framework. These elements include reconfiguration, integrating internal and external competences (Cherubini Alves et al., 2011), market management strategies, alongside the firm's capabilities and internal resources (Tondolo, 2010), open innovation, information flows (upstream, downstream), and various skills of wineries' workforce (Dries et al., 2014).

The firm's ability to respond or withstand turbulence has important implications. As depicted (Figure 1), such ability provides the firm much-needed strength, preparedness to respond to future challenges or turbulence, or even enhance its competitive advantage, by entering new markets, or by investing to diversify or improve product quality.

The prevalent issues identified as indicative of the turbulent stage as well as the aftermath and its effects on wineries were key elements reflected in this study. For example, in the aftermath of Brexit, notably, there was a fall in the value of the Sterling, which led to price increases for importers and for final UK wine consumers (The Guardian, 2017). This impact was noted by several participants (e.g., SP1, SP2, IP1, IP2). A recent report (Anderson and Wittwer, 2017a) further forecasts the future weakening of the UK currency; based on these forecasts, there will be financial consequences for producers, importers and consumers. As a result, the UK's main importers may gain a stronger interest in pursuing other avenues, including New World wine countries, to purchase wines that are priced competitively. This potential scenario would have a knock-on effect on wineries from Italy and Spain, as well as those from other European wine producing nations.

However, while various comments support these scenarios (SP6, SP7, IT5, IT6), another report by Anderson and Wittwer (2017b) suggests varying consequences for countries in and outside the EU. For example, the report proposes scenarios of Brexit's impacts as far as until 2025 and forecasts both higher prices for consumers, and less wine imports in the UK. Furthermore, if such scenarios materialize, there will be increased competition between EU and New World exporters for other alternative markets (Anderson and Wittwer, 2017b).

In this context, dynamic capabilities become vital for many wineries; this relevance was proposed (Figure 1) as a preamble of the three clusters or mechanisms on which the theory is grounded. Indeed, reflecting on the potential tangible and intangible impacts of Brexit is essential for wineries. For instance, based on Teece's (2007) paradigm, the importance of sensing, seizing, and transforming was underscored. In fact, being able to sense turbulence ahead, in this case, through the aftermath of an external issue, that is, beyond the control of winery owners/managers, would be followed by planning and executing remedial strategies. As the following comments and as the results shown in Table 3 emphasize, these strategies are further developed, including in identifying or searching for new market opportunities:

SP11: Every change also means a new opportunity; you have to know how to exploit it.

IP11: Brexit represents an opportunity. As a producer, for me it is a very positive phenomenon, even when the mainstream wants to believe the opposite.

The above views are also in agreement with Dominguez and Mayrhofer (2017), who contend that, despite the challenges that the global economy pose to small and medium firms, such economy also offers new opportunities. These and other comments underlining consideration of other markets and associated investments to do so (SP8, SP9, SP10, IP7, IP8), were supported by the main findings (Table 3), and further demonstrate that many participants are sensing and anticipating events. Consequently, they are seeking to address or minimize potential threats that entail the mobilization of resources (Teece, 2012), including investments in travel to create or enter new markets (SP7, SP8, IP6, IP7), or to improve the quality of the product (SP9, IP8).

As conceptualized (Figure 1), in the process of transforming and reconfiguring, and aligned with Teece (2007, 2014), winery operators further acquire and accumulate knowledge, and enhance ways of responding to turbulence, allowing them to develop other key dynamic capabilities. In fact, in agreement with the dynamic capabilities literature (Eisenhardt and Martin, 2000; Helfat and Peteraf, 2009; Winter, 2003), strategic decision making was illustrated in additional ways. As shown (Table 3), many participants indicated no longer depending on the UK consumer market. Others acknowledged the importance of negotiating or increasing promotional efforts to capture or continue in the UK market, while others believed in providing more value for money (e.g., improving product quality), as well as working towards finding or establishing new international networks. Thus, the amalgamation of wineries' resources, exemplified in their tangible (product, equipment, financial investments) and intangible (human resources, communication, knowledge, service quality) is suggested to create capabilities (Grant, 2016). In turn, the bundle composed of reconfiguring, strategic decision making and organizational capabilities can provide ample support to wineries' efforts in integrating internal/external competences (Cherubini Alves et al., 2011), firm capabilities (Tondolo, 2010), or internal skills and information flows (Dries et al., 2014). Some of these elements were conveyed in previous comments (SP11, IP9, IP10), as well as in the following:

SP12: *We have always transmitted that our wines are an important part of how we understand life: enjoyment, happiness, honesty and social relations. British consumers will understand us whether they are or not in the EU.*

IP12: *We need to increase collaboration with our UK partners and promotion of our wines in the UK.*

Overall, the effects of wineries' strategic and operational activities, coupled with valuable gained knowledge and experience, are suggested to contribute to their preparedness, ability to withstand turbulence, and to maximize opportunities and possibilities to enhance their competitive advantage. Finally, as suggested in the framework, these outcomes have important implications, not only at a firm level, but also regionally, and nationally. Importantly, the outcomes represent contributions in the form of socioeconomic wealth and development. For instance, as the employee percentages underline (Table 1), wineries could make a significant impact, maintaining or creating jobs.

Discussions and Conclusions

By incorporating the DCA (Eisenhardt and Martin, 2000; Teece et al., 1997), this exploratory study proposed a conceptual framework to investigate winery entrepreneurs' perceived impacts and responses to turbulence, notably, concerning the Brexit phenomenon. In doing so, the study made two contributions, the first theoretical, and the second to the entrepreneurship and international business literature, through the empirical investigation of

predominantly micro and small winery entrepreneurs operating in Italy and Spain. To date, apart from recent reports hypothesizing potential outcomes of Brexit on the wine sector (Anderson and Wittwer, 2017a, 2017b), academic research studying the perceived impacts of and responses to Brexit from winery entrepreneurs' points of view is inexistent.

The findings first revealed that, overall, Spanish winery entrepreneurs anticipated more negative impacts from Brexit. Overall, this phenomenon was perceived to cause major impacts and disruptions to the wine sector for 34.2 percent of participants. At the same time, a higher percentage of Spanish respondents perceived increased bureaucracy, higher prices for UK importers, and potentially a diversion of trade from the EU to other, New World wine-producing countries. In contrast, a higher percentage of Italian participants perceived Brexit's impacts to be minor. Executing Pearson Chi-square tests, various statistically significant results between the two groups were observed. Regarding responses to Brexit, both groups appear to concur with the need to find new exporting markets, negotiating with UK importers, and increasing their promotional efforts in the UK to maintain this market, and provide value for money. However, statistically significant results were also noticed, suggesting that Italian participants appear to be more confident, with 41 percent indicating that no major responses were needed in regards to Brexit's impacts. In contrast, a much higher percentage of Spanish entrepreneurs were prepared to maintain or even lower their prices, suggesting their lack of well-developed capabilities, or lack of desire, to consider venturing in other markets, or executing other value-adding strategies.

Implications

Various practical implications can be inferred from the findings. Fundamentally, involvement in international markets, particularly diversifying and constantly seeking new opportunities decreases dependency and, in the case of significant disturbances (Brexit), potential financial impacts. Developing dynamic capabilities, by means of adding value, for instance, through quality improvements, service quality and consistency, or even new product development, as well as investing in human resources to improve marketing and communication strategies can prepare wineries in different fronts. As a result, wineries may be much more adaptable and be able to overcome potential challenges. The findings and recent reports (Anderson and Wittwer, 2017a, 2017b) also suggest that, even by not depending on the UK consumer market, the impacts of Brexit could lead to increased competition for other markets. Therefore, one turbulent event at one end can have significant impacts for the entire industry. The findings also underline the need for chambers of commerce and other agencies to support the wine sector, informing them of opportunities, or facilitating exports by simplifying processes and minimizing costs for winery entrepreneurs. As various participants stated:

SP13: Being a small winery we have little room for action; reducing our prices to make our wines more attractive is not an option...

SP13: Our winery is very small and we cannot simply lower prices very much; we have no margin...

The findings also have theoretical implications where models alter or are utilized differently in varying contexts. One fundamental implication is the insightfulness gained from considering the clusters proposed by Teece (e.g., 2007, 2014) to understand different stages in which entrepreneurs address phenomena that can bring major changes and uncertainty, as the case of Brexit. The proposed framework (Figure 1), developed from the dynamic capabilities literature, and from the wine business research adopting this approach, aids in explaining the different phases following a turbulent event. In the case of Brexit, and based on the findings, there are already signs of tangible consequences for the wine sector,

while many others sense a period of turbulence, at least in the medium term. In response, considering other markets will test wineries' capabilities to acquire, further develop, and/or exploit existing resources. Moreover, sensing the potential complications that Brexit might have for their industry, winery owners/managers saw the need to find new markets. This form of sensing could lead to not only seizing upon turbulence as an avenue to enter other markets, or negotiate their position in the UK, but also to capitalize upon opportunities that emerge as a product of turbulence, much like some of the participants' comments suggested (SP13, IT13).

At the same time, and aligned with previous research, a second key implication to theory is manifested in the various other factors that affect or go alongside sensing, seizing, and reconfiguring. For example, Wang and Ahmed (2007) underline the significance of market dynamism, a skill that was strongly associated with the majority of the participating firms, particularly in exports. The continuous pursuing of international markets, coupled with on-site or domestic sales is a clear form of firms' market dynamism, which can help them remain competitive.

Similarly, and in accord with Easterby-Smith and Prieto (2008), the appropriate deployment and utilization of dynamic capabilities, which was reflected primarily in identifying new export markets, but also quality improvements, can determine firms' success. These theoretical implications have applicability to a number of subject areas, particularly in the field of international business, entrepreneurship, and business management. Furthermore, the implications are not only associated with firms involved in the wine industry, but could also be applied to those trading in other products and services with the UK, including fresh and preserved foods, manufacturing, or even talent scouting. These implications suggest the value of the theoretical framework, which as a product of its simplification (Siggelkow, 2007), allows for its widened application.

Overall, the experience of adapting and addressing the impacts of Brexit is hypothesized as a stage where winery entrepreneurs will accumulate knowledge and experience. The resulting reconfiguration, changing competences, enriched strategic making processes, and strengthened organizational capabilities can be operationalized into practical forms of action. Thus, an overarching theoretical implication is identified: wineries that embrace sensing, seizing, and transforming/reconfiguring, exhibit skills of market dynamism, and deploy and exploit their dynamic capabilities (expertise, knowledge, product, innovation). As a result, they are able to adapt and thrive in turbulent periods. In addition, wineries are better equipped to withstand future events, and, importantly, enhance their competitive advantage.

In the main, the framework provides new insights and guidance concerning an external event that could disrupt and affect a very important industry that, in the case of European countries, has been rooted in their culture, tradition, natural environment, and economy for centuries. Consequently, the framework holds potential, and arguably, could be also applied to gain understanding of dynamic capabilities in the context of a turbulent event in other sectors that, as in the wine industry, are vastly represented by SMEs (Golicic et al., 2017), or even by micro firms.

Limitations and future research

Despite its contributions and insights, this exploratory examination presents various limitations. First, the response rates for both countries were modest. Given that many contemporary studies are also affected by low response rates, future research should consider other ways of collecting data, including by using a case study method, visiting wineries and conducting face-to-face interviews. This approach, while not free of limitations, could provide first-hand data that could be complemented by on-site observations, firm information (printed), and other forms of data triangulation.

Second, the research is also limited to Italy and Spain. Future academic endeavors could choose winery entrepreneurs from other EU wine-producing nations, or entrepreneurs operating in New World regions, both in the Southern and Northern Hemisphere. The gathered data could allow for making country, continent or regional comparisons, thus, further enriching, or confirming/disconfirming the findings of the present study. Future research could also examine the DCA with other theoretical constructs when examining the significance of dynamic capabilities for micro and small enterprises in responding to turbulence. Earlier evidence suggests the application of the DCA together with organizational learning and knowledge management processes (e.g., Easterby-Smith and Prieto, 2008; Villar et al., 2014). The combination of different theoretical constructs could help in enhancing knowledge and understanding of different ways in which dynamic capabilities help entrepreneurs to address turbulence and change.

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