Type of paper: Master Thesis
Author: Hanna Bremander
Study Program: MSc in Business, Language & Culture – Business & Development Studies
Supervisor: Søren Jeppesen (IKL)
STUs and number of pages: 177,167 STUs and 60 pages
Copenhagen Business School, 20th June 2014
# Table of Contents

**ABSTRACT** .............................................................................................................................................. 3

1. INTRODUCTION ...................................................................................................................................... 5

2. PHILOSOPHY OF SCIENCE AND RESEARCH METHODOLOGY ................................................................. 7
   2.1 Critical Realism – A Philosophical Position ......................................................................................... 7
   2.2 Methodological Choices ..................................................................................................................... 10
   2.3 Chapter Conclusion ........................................................................................................................... 16

3. BACKGROUND AND INDUSTRY ANALYSIS ......................................................................................... 18
   3.1 Analysis of the Global Wine Industry – An Overview ........................................................................ 18
   3.2 The Development of a Sustainable Industry ...................................................................................... 21
   3.3 Analysis of the Chilean Wine Industry ............................................................................................... 25
   3.4 Chilean Wine on the Swedish Market .................................................................................................. 33
   3.5 Chapter Conclusion ........................................................................................................................... 35

4. ANALYTICAL FRAMEWORK .................................................................................................................... 37
   4.1 The Role of Theory and Concepts in the Critical Realist Study ......................................................... 37
   4.2 Institutional Theory ............................................................................................................................ 37
   4.3 Institutions and CSR .......................................................................................................................... 42
   4.4 Chapter Conclusion ........................................................................................................................... 43

5. PRESENTATION AND ANALYTICAL DISCUSSION OF FINDINGS .......................................................... 46
   5.1 Systembolaget and the NAMs ............................................................................................................. 46
   5.2 Competitors ....................................................................................................................................... 49
   5.3 Chilean Government Bodies .............................................................................................................. 50
   5.4 Why Have the Pressures Had This Effect? ......................................................................................... 51
   5.5 Discussion of the RQ and Theoretical and Methodological Evaluation ............................................ 54

6. CONCLUSION ............................................................................................................................................. 59

BIBLIOGRAPHY .............................................................................................................................................. 61

APPENDIX 1. INFORMATION ABOUT INTERVIEW COMPANIES ................................................................. 71
   Company A (Viña Santa Carolina) ............................................................................................................... 71
   Company B (Viña Undurraga) .................................................................................................................. 71
   Company C (Viña San Pedro) .................................................................................................................... 72
   Company D (Concha y Toro) .................................................................................................................... 73

APPENDIX 2. INTERVIEW TRANSCRIPTS ...................................................................................................... 75

APPENDIX 3. INTERVIEW QUESTIONS ......................................................................................................... 99

APPENDIX 4. TABLE FOR INTERVIEW ANALYSIS .................................................................................... 101

APPENDIX 5. TRADE CHANNEL DISTRIBUTION FOR WINE IN SWEDEN ........................................ 121

APPENDIX 6. THE NORDIC ALCOHOL MONOPOLIES’ CODE OF CONDUCT ........................................ 122
Abstract

“New World” wine producer countries like Chile, New Zealand and South Africa increasingly focus on developing their sustainable winemaking practices, and have adopted national sustainability initiatives to guide this development. Scholars have argued that firm- and industry-external factors are important for the adoption of voluntary sustainability initiatives in the wine industry (Gabzdylova, Raffensperger & Castka 2009; Sinha & Akoorie, 2010; Szolnoki, 2013; Ioannu & Serafeim, 2012). However, little is known about the effect of institutional pressures in the industry’s external environment on the adoption of such initiatives. Through a critical realist case study approach, I use an institutional theory-based analytical framework to understand and explain how and why demands for sustainability exerted by the Chilean wine export industry’s external environment have affected the industry’s implementation of sustainable winemaking initiatives.

The Chilean wine export industry is important for the country’s economic and social development, as it is an emblematic sector that promotes the Chilean “brand” on international markets and contribute to employment and professional development. Furthermore, the industry has an objective to become the number one New World exporter of sustainable wine by 2020 and has developed a Sustainability Program and Sustainability Code to promote this development in the industry (Wines of Chile, 2010). Interviews with sustainability managers in four of Chile’s largest wine export companies and with the Head of Sustainability Program at Wines of Chile, as well as secondary sources about industry actors and academic scholars’ perceptions of the sustainability situation in the industry, make up the empirical foundation of the study. An industry analysis, both on a global and national level, describes the preconditions for the Chilean industry to be an international competitor on an increasingly competitive global market.

Demands for environmental friendly, socially and economically responsible wine is exerted on Chilean wine exporters by the Swedish Alcohol Monopoly, Systembolaget, and by its Nordic “sister” monopolies. As a member of the international Business Social Compliance Initiative (BSCI), Systembolaget has implemented the BSCI principles for labor rights and protection of the environment into its Code of Conduct. Thereby, Chilean wine companies that wish to export to the Swedish market, have to comply with these principles. Systembolaget’s demand for BSCI compliance is one example of an institutional pressure for sustainability put on the Chilean wine export industry. By the application of DiMaggio and Powell’s (1983) institutional theory framework I aim to explain the underlying powers that drive the implementation of sustainability initiatives in the Chilean wine export industry, and under what conditions these powers have caused the increased focus on sustainability in the industry.
Through causal analysis, I conclude that the isomorphic process of increased sustainability focus among actors in the Chilean wine export industry partly is explained by the interaction between coercive, normative and mimetic pressures for change exerted by actors in the industry’s institutional environment. These institutional pressures stem from norms and rules about acceptable and legitimate business behavior and have the power to drive or constrain the homogenization process toward sustainable winemaking practices in the industry. However, the interviewed companies and WoC’s responses to such pressures were mediated by the following contextual factors: the level of competition on the global wine market; firm-level factors such as previous investments in sustainable practices, international presence, and the financial state of the company; and cultural-cognitive norms that influence and guide legitimate business behavior in Chile. I suggest that further research with the aim to explain why wine industry actors engage in sustainability initiatives take into consideration the effect of 1) company-internal values and norms which can constitute industry-internal sources of institutional pressure for sustainability; and 2) economic conditions in the industry’s environment.
1. Introduction

Increasing forces of globalization and a growing consumer middle-class have, during the last decades, generated structural changes in global wine markets. Countries like Chile, New Zealand and South Africa increasingly export to European markets (Labys & Cohen, 2006). The Chilean wine industry aims to become the number one “New World” producer of sustainable wines by 2020 and has developed a National Sustainability Program and a Sustainability Code to aid in its pursuit (Wines of Chile, 2010). Although a minimum level of environmental, social and economic responsibility in the wine production process is required by national regulations, there is a tendency among wine producers in Chile to adopt additional voluntary sustainability initiatives. Scholars have suggested that firm- and industry-external factors are important drivers for the implementation of “beyond compliance” sustainability initiatives for wine producers globally (Gabzdylova, Raffensperger & Castka, 2009; Sinha & Akoorie, 2010; Szolnoki, 2013; Ioannou & Serafeim, 2012). Especially in Northern and Western Europe, buyers are paying growing attention to the social and environmental impact of their supply chain. Some demand that suppliers sign a “Code of Conduct”, which guides sustainable business practices (CBI, 2014). The Swedish distribution monopoly’s (Systembolaget) demand for compliance with the sustainable principles of the international Business Social Compliance Initiative (BSCI) is an explicit example of how such concerns affect wine producers that wish to sell their products to the Swedish market. In this thesis I specifically look into how and why demands for sustainability exerted by the Chilean wine export industry’s external environment have affected the industry’s development of sustainable winemaking initiatives.

Since the end of the Pinochet dictatorship in Chile, the country’s wine industry has undergone a rapid development and reconstruction of its wine sector, as the value of wine exports has risen immensely. Today, the country’s yearly exports amount to almost 900 liters and a value of US$ 1.9 million (Vinos de Chile, 2013). Export levels have mounted from approximately 20% in the 1990s (Gwynne, 2008), to represent more than 60% of Chile’s total wine production in 2013 (USDA, 2013). The country is today the world’s fifth largest exporter of wine (OIV, 2013b). According to the Chilean trade association for wine exporters, Wines of Chile (WoC), the wine industry is not only important for the country’s exports and investment levels, but it also has an impact on employment levels and professional development (Wines of Chile, 2010). One example of how wine exports have generated regional benefits can be found in the valley of Colchagua, one of the main wine growing regions in Chile. Income from wine-related tourism has lead to improved community services and better employment opportunities for local communities in the area (Szmulewicz, Dávila & Pinuer, 2010). The potential for economic and social development makes the Chilean wine industry interesting from a business and development perspective, and suitable as a topic for this thesis. Furthermore, consumer trends and sustainability demands on the global market for wine constantly evolve, which constitutes an interesting business environment.
When discussing companies’ engagement in sustainability initiatives, the concepts of corporate sustainability (CS) and corporate social responsibility (CSR) are relevant. For the purpose of this study I define corporate sustainability (CS) in accordance with Iarossi, Miller, O’Connor and Keil (2013), that base their definition on several characterizations discussed in the sustainability literature: “Corporate sustainability refers to the strategies of an organization, typically considered voluntary, that simultaneously integrate social, environmental and economic dimensions into the operations of the organization and in its interactions with stakeholders” (Iarossi et al., 2013, p.77). The general idea in the past was that CS related to the environment, and CSR to social aspects of corporations’ societal engagements. Nowadays, CS and CSR are often treated as two terms that denote the same meaning (Iarossi et al., 2013; van Marrewijk, 2003). In a sense, CS is seen as the ultimate goal, and CSR as a step on the way to that goal, as companies try to balance environmental, social, and economic aspects of the business’ operations and engagements with stakeholders (van Marrewijk, 2003).

Sustainability is usually defined as “meet[ing] the needs of the present without compromising the stability of future generations to meet their own needs.” (UNECE, 2014). This definition is one of the most commonly used in the sustainability literature and stem from the Brundtland Commission’s sustainable development report presented in 1987 (Barkemeyer et al., 2011). Sustainability initiatives then, are initiatives that aim to develop (in this case an industry’s) practices to become more environmentally friendly, and more socially and economically responsible. Examples of such initiatives in the wine industry are: carbon emission measurements and water recycle programs, supplier development and worker training initiatives, as well as management systems and quality control measures to aid implementation of sustainable practices and ensure that the initiatives are economically responsible (Flint & Golicic, 2009; Wines of Chile, 2010). My aim in this thesis is to explain how and why the increased focus on sustainability in the Chilean wine export industry has occurred. In order to answer this research question (RQ), I look into how demands for sustainability exerted by the Chilean wine export industry’s external environment have affected the industry’s development of sustainability initiatives.

The structure of the thesis is inspired by Danermark, Eriksson, Jakobsen and Karlsson’s (2002) ‘explanatory model of critical realism’, which is a model that promotes a dynamic interaction between empirical data and theory. Therefore, the following chapter outlines the thesis’ research methodology and describes specific critical realist philosophical notions on which methodological decisions are based. Chapter 3 presents and describes the situation in the global and Chilean wine industry, based on industry actors’ and academic scholars’ perceptions. In chapter 4, theoretical concepts are discussed and the thesis’ analytical framework is developed. Chapter 5 outlines analytical findings and provides a discussion of these findings in relation to the RQ. Chapter 6 is a conclusion of academic contributions and implications for future research.
2. Philosophy of Science and Research Methodology

Methodology concerns the “border line” between philosophy of science and the methods and procedures used in scientific studies. Philosophy produces knowledge, like science does. The difference is that philosophy produces knowledge about the necessary conditions from which science can produce knowledge (Bhaskar, 1998). The important role of philosophy of science for the research design is manifested in the fact that “we cannot decide which method is the most appropriate without taking into consideration the properties of the object we wish to acquire knowledge about” (Danermark et al., 2002, p.73). A researcher’s philosophical stance should be thoroughly reflected upon, as it shapes and influences decisions throughout the research process. First, the following sections therefore address my own philosophical stance and, second, its methodological implications for this study.

2.1 Critical realism – a philosophical position

The critical realist philosophical strand mainly characterizes this study, which is a case study based on critical realist assumptions about how reality is structured, what knowledge is, and the role people play for the generation of social events. Bhaskar primarily developed the critical realist philosophical position on the basis of the realist philosophy of science (Sayer, 2000) and as a critique of positivist approaches to social science (Bhaskar, 1998). I have chosen to focus on a few key aspects of critical realism that are crucial determinants of this study’s methodology. First, critical realist views on ontology and epistemology are considered. Second, the view on society, as well as people’s role in society and as scientific objects, is discussed.

Critical realists hold that the focus of the research process is the relation between the real world and notions, or concepts, we make of it. Danermark et al. (2002, p.17) state that “the crucial question for social science methodology concerns the relationship between science and reality”. Hence, in order to understand what methodological consequences might stem from a certain philosophic position, it must be clear to the researcher how he/she views reality and, in turn, what knowledge can be obtained about reality. According to critical realist ontology, reality exists independent of concepts we make of it. Also, we observe reality indirectly. We cannot observe the “deep dimension” of reality, its powers and mechanisms, but only what those powers and mechanisms cause: events and phenomena (Danermark et al., 2002). Entities we attempt to study have both powers and liabilities (Easton, 2010), and these powers are usually called “causal powers” (Sayer, 2000). Furthermore, reality involves three different domains: how we experience worldly events (the empirical dimension); the actual event; and the deeper dimension in which mechanisms producing the worldly events can be found (the real dimension) (Bhaskar, 1978 in Danermark et al., 2002, p.20). The critical realist researcher’s task is to ascertain relations or connections between these three dimensions. That is, through understanding the underlying mechanisms and their effect on worldly events
and not only through focusing on the events themselves. The recognition of this third domain of reality is what distinguishes critical realism from other philosophical strands that adhere to an objective ontology (Danermark et al., 2002).

When it comes to the epistemological question of what knowledge is, critical realists believe knowledge to be conceptual constructions that are socially determined, hence, knowledge is not objective. This, since we use already known conceptualizations to make sense of what we observe. What this implies is that knowledge can only be seen as the best understanding of reality for now. Science tries to “transform theories into a deeper knowledge of reality” (Danermark et al., 2002, p.23), but that knowledge can be challenged by the development of other theories. Researchers in the natural sciences tend to adopt a ‘naïve realist epistemology’ and assume that the reality that exists independent of observers can be readily accessed. However, in social science researchers do not usually have access to accurate measurements or controlled systems. Therefore, critical realists agree that reality is socially constructed, but not entirely (Easton, 2010). In short, critical realism entails an objective ontology and a subjective epistemology.

Now to the critical realist view on society and man. Bhaskar (1998) clearly distinguishes between people and society, and emphasizes that people do not create society. Society is rather a necessary condition for human activity, as it should be regarded as an “ensemble of structures, practices and conventions which individuals reproduce or transform, but which would not exist unless they did so.” (Bhaskar, 1998, p.39) Hence, in the critical realist view society does not exist in isolation of peoples’ actions, but it can neither be regarded as a product of those actions. Relating the view on society to the (three) dimensions of reality, there must be mechanisms (or powers) that generate social activities, or events. Social structures constitute such mechanisms and exist because people create activities that social mechanisms govern (Bhaskar, 1998). Social science objects include people that are active participants in the search for knowledge. The fact that people change with new experiences and knowledge also has the consequence that social phenomena change (Danermark et al., 2002).

Analysis of causation is a distinctive feature of realism and it rejects the positivist notion of regularities in series of events. This is much due to the “open systems” of the social world, as conditions coming from the surrounding context may affect the shaping of events produced by causal powers. Therefore, different causal powers or mechanisms can produce the same event (losing your job can be induced by a number of causal mechanisms). Hence, the explanation of why something is happening relies on identifying causal powers, how they work, and if and under what conditions they have been activated (Sayer, 2000). Next, I look into what these critical realist standpoints generate in terms of methodological implications for research.
2.1.1 Methodological Implications

To begin with, it should be emphasized that critical realism does not adhere itself to any specific method for social science research. In fact, it criticizes attempts to develop a specific method for such work. What critical realism does, on the other hand, is to provide guidelines for how to conduct research. Danermark et al. (2002) present their version of critical realism’s three central methodological arguments: 1) that all science should have generalizing claims; 2) that abduction and retroduction are modes of inference specifically suited for critical realist studies; and 3) that explaining processes and events is an overall aim in social science research. All three issues are also connected to one central philosophical problem in science, namely the link between what is individual (or specific) and what is universal (or general) (Danermark et al., 2002). In this section I discuss the broader methodological implications of the three arguments.

Critical realists argue that science should have generalizing claims, but opinions about the relationship between the individual and universal differ between schools (Danermark et al., 2002). Easton (2010) adds that generalization, seen from a critical realist perspective, stems from an identification of what processes are at work in the “deep” level of reality, under certain conditions, and through certain mechanisms. Easton here refers to the “realist concept of generality”, which refers to that something can be general in the sense of essential structures and properties (Danermark et al., 2002). One methodological implication, which stems from the claim that all science is generalizable, is that researchers can generalize based on a single case study. However, as is also mentioned in relation to the critical realist case study method below, it is first when a strong causal explanation (see section 2.2.1 for clarification) has been produced that such generalization is possible (Easton, 2010). As I do not claim to produce such an explanation to justify a generalization beyond my objects of study, I now move on to Danermark et al.’s (2002) second argument.

The second methodological argument Danermark et al. (2002) make concerning critical realist methodology is that abduction and retroduction are two ways of drawing conclusions and linking “observations of individual phenomena to general concepts” suitable for the critical realist study (Danermark et al. 2002 p.79). Although the terms abduction and retroduction are sometimes used interchangeably, Danermark et al. (2002) offer a distinction between the two. In their terminology, the core of abduction is “recontextualization”, which is interpretation of a phenomenon within a new conceptual framework, in order to enhance our understanding of it. It means to go from one conception of a phenomenon (or a structure), to a different and deeper notion of it. Conceptual abstraction is used in the social sciences to isolate the different mechanisms that produce the event in question, as abstraction is one method that can give new meaning to already known phenomena. Naturally then, theories and models are of central importance to the abduction process as they provide necessary sources for recontextualization (Danermark et al., 2002).
Abstraction can be complimented by *retroduction*, which is a method for locating “basic conditions” for the existence of the phenomenon in question. Retroduction is however not a formalized mode of inference, as deduction, induction or abduction, because it does not have a formal logic. The central issue when engaging in a retroductive approach is “what qualities must exist for something to be possible?” (Danermark et al., 2002, p.80). As critical realists believe that social reality consists of structures and mechanisms that produce events, they hold that one can only acquire knowledge about reality by going beyond empirically observable events. Through retroduction, researchers seek to understand and clarify the basic conditions for knowledge, and for how people act and reason (Danermark et al., 2002).

Regarding the third critical realist claim that explaining processes and events is an overall aim in social science research, it should be clarified what “explanation” means from a critical realist perspective. It implies “first describing and conceptualizing the properties and causal mechanisms generating and enabling events […], and then describing how different mechanisms manifest themselves under specific conditions.” (Danermark et al., 2002, p.74) In other words, what is aimed for is a causal explanation (Sayer, 2000) of why a certain phenomenon has happened. Sæther (1998) argues for the usefulness of retroduction (in his work abduction and retroduction are considered two terms denoting the same concept) as an inference mode in case study-based social science research, as the links between empirical observations and theory can be more explicit if researchers follow such an approach. By doing so, our understanding of the “contradicting relations” in place between industry and the social and environmental context it is embedded in, could be enhanced. This brings me to discuss methodological choices made in this thesis.

### 2.2 Methodological Choices

This section explains, justifies and critically assesses the methodological choices made for this study. First, characteristics of the critical realist case study method are briefly considered. Second, the choice of the case study method and the thesis’ research design decisions are motivated and justified. Third, specific attention is paid to data collection and the data’s relevance to the research question.

#### 2.2.1 Case Study Research

One definition of case research is that it is “a research method that involves investigating one or a small number of social entities or situations about which data are collected using multiple sources of data and developing a holistic description through an iterative research process.” (Easton, 2010, p.119). Easton (2010) argues that critical realism is well suited for case study research, since critical realism allows for the study of different types of situations and does not restrict the number of research units included, as long as the study includes in-depth research with the aim of understanding why a situation is as it is. Furthermore, Danermark et al. (2002) state that case studies, which have been strategically selected, are an important feature of a...
critical realist social science study. In our everyday life we use causal language without paying attention to it, which means that we constantly indicate that something affects something else, and how it does so. Critical realists argue for the use of causal language with thought (Danermark et al., 2002).

Easton (2010) points out that the flexibility of the case study, that is the possibility to dynamically move back and forth between different stages of the study, is an advantage specific to that method. Survey studies do not offer the same iterative process, for example. Nevertheless, all research methods have both virtues and deficiencies that are important to recognize, as the method of choice will have implications for the entire research process. One should not be oblivious to the fact that the case study method requires a lot of time to reach an in-depth understanding and explanation of the situation at hand. Another concern often expressed is that the method does not sufficiently protect against researcher bias, such as the researcher finding what she or he expects to find. Often, critique (especially from positivist researchers) is related to the case study’s ability to develop theory or draw general conclusions based on specific cases. Generalization based on critical realist case studies is possible, however, only if a “defensible causal explanation” has been produced. Only then can that explanation serve as a starting point for further theory development (Easton, 2010, p.127). Having outlined some of the basic conditions for what a critical realist case study should include, I will continue with this study’s research design and also motivate why a case study method is suitable for this thesis.

2.2.2 Research Design

Sayer (2000) provides a distinction between what he calls intensive and extensive research design approaches. Whether a largely intensive or extensive design is preferable depends on the object you intend to study, the nature of this object, what you want to understand and how you want to understand it (Easton, 2010). According to Sayer (2000), pure extensive research generates statistical explanations; not explanations of causal mechanisms and powers. Therefore it cannot provide necessary explanations of a process or understand why it has happened. Intensive research, on the other hand, “seeks out substantial relations of connection and situates practices within wider contexts”, and thereby produces necessary explanatory power (Sayer, 2000, p.22). Qualitative analysis of one or several cases usually characterizes the intensive approach, whereas an extensive research design most often includes statistical analysis of a representative sample. Furthermore, where intensive research studies the research entities in their “causal contexts” through for example interactive interviews, pure extensive studies use a survey- or “standardized” interview method to collect data (Sayer, 2000). For this research project, a research design with intensive and extensive characteristics has been chosen. What these characteristics are, and the reasons behind those decisions, follow after the choice of the case study method has been justified.
The case study method is a suitable research method for this thesis, based on the following grounds. First, the Chilean wine export industry is an example of a strategically selected research entity. In contrast to extensive research’s aim to select statistically representative samples, cases are usually the empirical foundation in intensive studies (Sayer, 2000), as mentioned. The Chilean wine export industry was selected as the case to be studied because it provided a phenomenon for analysis (the increased focus on sustainability) which was interesting, also in the perspective of the global wine industry. It is not an “extreme” or “critical” case, but a “normal” case (Danermark et al., 2002), which can provide information about an increasingly current phenomenon. Second, a “critical realist case approach” fits well with studies where the entity of study is “relatively clearly bounded, but complex” (Easton, 2010, p.123). The Chilean wine export industry is a relatively clearly bounded entity of study, but complex in its structure. It consists of multiple objects, which all have the power to affect each other, and thereby may affect the entity. Second, the nature of a study’s RQ can quite clearly determine if a critical realist case method is suitable. If the question is in the form of “[w]hat caused the events associated with the phenomena to occur”, it fulfills critical realism’s demand in that respect (Easton, 2010, p.123). Since this thesis aims to explain what powers have caused the increased focus on sustainability initiatives within the Chilean wine export industry to occur, it is well suited to a critical realist case study method. Moreover, the flexibility of the case study method (as pointed out by Easton, 2010) supports the logical structure of the critical realist explanatory research model (Danermark et al., 2002) that guides the thesis (see below).

As was mentioned, intensive and extensive design decisions not only depend on your object of study, but should also consider what it is you want to understand, and how. My RQ is of an intensive character as it addresses how and why the increased focus on sustainability in Chile’s wine export industry has occurred; what powers have produced this phenomenon. Causal explanations of what can be seen as a causal process, requires intensive research and analysis methods, where the case is studied in its causal context (Sayer, 2000). However, as one context in which the Chilean industry is incorporated is the global wine industry, there was a need to gather extensive data about the industry. Production and export figures, as well as characteristics of both the Chilean and international market for wine, were considered necessary data for the analysis to be strongly related to the Chilean wine export industry’s causal context. This research design allowed me to assess the relations between objects of study, and also conclude on factors in the study entity’s environment that affect the development of sustainability practices in the industry. To seek out substantial relations and important external factors is in itself an inductive move, designed to produce causal explanations (Sayer, 1992; 2000). In order to provide one or several causal explanations for why the increased focus on sustainability had occurred in the Chilean wine export industry, I needed to conduct a causal analysis of the data collected.
The approach I used to enable such an analysis was a largely inductive and dynamic one, based on abduction. Danermark et al.’s (2002) ‘explanatory model of critical realism’ was the inspiration for the structure of the thesis and the research process. The model includes a dynamic process from concrete description of the event in focus, to abstract analysis. It also argues for retroduction; the process of connecting the findings of the abstract analysis back to the concrete in form of examining “how mechanisms manifest themselves in concrete situations” and giving explanations of the events or phenomena observed (Danermark et al., 2002, p.110). Still, in this thesis I do not “reapply” suggested changes of the analytical framework to concrete empirical situations, and therefore do not engage in retroduction. It would have been interesting to do so, had the framework for the project been different. Nevertheless, I started out wanting to explain why the increased focus on sustainability in the Chilean wine export industry had occurred. I did not only want to comprehend what events had spurred this development, but to also form an understanding of the deeper underlying mechanisms that caused this change to happen. Therefore, I initiated my empirical investigation by addressing the question “How and why has the increased focus on sustainability in the Chilean wine export industry occurred?”

During my empirical research, as I gathered information about industry actors’ perceptions of the situation in the Chilean wine industry, I developed the understanding that pressures were exerted on the industry by actors in its external environment. I took an outset in DiMaggio and Powell’s (1983) theoretical concept of institutional pressures and thereby viewed the demands for sustainability exerted on the industry as such pressures. This led me to refine the RQ and guided the research process from the concrete, or empirical, to the abstract, or theoretical. For data processing I used a concept-driven coding method (Gibbs, 2007). I coded the data by categorizing it according to DiMaggio and Powell’s different types of institutional pressures, but also looked for factors in the industry’s environment, which had interacted with the institutional pressures identified (see Table 1 & 2 Appendix 4). In the analysis I thus went from the concrete to the abstract, as empirical perceptions were analyzed through the lens of institutional theory. The structure of the thesis follows this pattern; from the concrete to the abstract; from empirical investigation to theoretical analysis.

2.2.3 Data Collection and its Connection with the RQ

This case study called for multiple sources of evidence to be collected and analyzed in order to build a multifaceted understanding of the increased focus on sustainability initiatives in the industry and to establish what causal powers lie behind the change process. Furthermore, the specific context in which the Chilean wine export industry is incorporated is a factor to take into consideration (based on Sayer, 1992; Easton, 2010). Primary data sources consist of interviews with four selected wineries and one interview with a WoC representative. Secondary data collected consist of both academic peer-reviewed perceptions about the sustainability development in the Chilean industry as portrayed in magazine articles, wine export company documents, Systembolaget-produced information and documents prepared by WoC. Furthermore, during my
conversations with Parra at WoC, views and information was informally passed on. To derive the analytical framework, I did however rely solely on academic, peer-reviewed literature. Before proceeding with the description of the data collection methods, I will shortly present some key characteristics of the four companies interviewed (for company presentations, see Appendix 1):

- **Company A.** The company is part of one of the largest winegrowers’ groups in Chile. Its five wine brands are exported to over 90 countries and the company employs close to 600 people. The winery complies with the BSCI Code of Conduct and is a member of WoC, but has not applied for certification with the National Sustainability Code (see chapter 3). Primary target markets are Brazil, Canada and Asia. In Europe the winery mostly works with the Nordic Alcohol Monopolies in Norway, Sweden and Finland. The company exports approximately 85% of its total production volume (Balic, 2013; Carolina Wine Brands, 2012a; 2012b).

- **Company B** is the smallest of the wineries interviewed. It employs roughly 430 people and exports to about 70 markets, of which Colombia, the Netherlands, and Denmark are most important. The Chilean market is also a primary market. Approximately 60% of the total production volume is exported to the four markets mentioned (Bunster, 2013; Undurraga, 2014a). The winery is not certified with the WoC (or National) Sustainability Code, but has started a process to implement the BSCI code of conduct into its operations (Urra, 2014).

- **Company C.** This winery is part of the second largest exporter wine group in Chile, which exports to over 90 countries. 15% of the company’s export volume is directed to the Nordic market, while other primary markets are Canada and the US (which represent 16% of the total export volume). The number of employees is about 1,500 (world-wide) (VSPT Wine Group, 2013). The company complies with the BSCI principles and is certified with the WoC Sustainability Code (San Pedro, 2014a). One of the company’s red wine brands was the 10th most sold wine (in volume terms) at Systembolaget for the year 2013 (Systembolaget, 2013).

- **Company D** is the largest Chilean exporter of wine and its products reach as many as 137 markets. The company employs approximately 3,500 people (world-wide) and has its own distribution subsidiaries in Sweden, Norway and Finland (among others) (Concha y Toro, 2013). One of the winery’s red wine brands was the 8th best selling wine (in volume terms) at Systembolaget in 2013 (Systembolaget 2013). The winery complies with the BSCI principles and has also become certified with the National Sustainability Code (Concha y Toro, 2014a).
The Chilean wine export industry and companies in the industry are part of, and operate, in a continuously changing environment. Therefore it is reasonable to expect different actors to have different perceptions of why the industry increasingly focuses on sustainability, and in order to enable an in-depth investigation a mostly intensive approach was considered suitable. Through interactive interviews, the researcher has a better chance to understand how the interviewees interpret circumstances in their surroundings, than in a strict “one-way” interview that has been fixedly structured by the researcher (Sayer, 2000). I chose to interview the four Chilean wine export companies presented above about their perceptions of what pressures had caused the sustainability development in the industry.

The companies, which are all wine producers and international exporters, were chosen as they represent the division in the industry between companies that have applied for certification by WoC’s Sustainability Code, and those that have not. Approximately 50% of WoC members have applied for, or been granted, certification. At the time of the interview selection, two of the companies interviewed (Company A and B) had not applied for the said certification, while Company C and D had both been certified. All four companies are large exporters of Chilean wine (Company C and D are the largest and third-largest exporters of Chilean wine, while Companies A and B are among the ten largest). The number of markets the companies export to was relevant for the selection process and this is an extensive design trait. The motivation behind this decision was to have a somewhat equal basis for views on international pressures for sustainability and their perceptive effect on the business. The number of markets these four companies export to, however, vary between approximately 135 and 70 markets. The reason for this is that Chile’s second largest wine export company was asked to join the study, but declined. Thereby Company B was included, although its international market presence is considerably less widespread than Company D’s. Initial contact to the companies was arranged through Patricio Parra, Head of the Sustainability Program at WoC. Parra was also part of the company selection process and was interviewed as a WoC representative.

Interviews were conducted with the sustainability representative from each company, as they were in the position to decide and reflect upon the company’s implementation of sustainability initiatives. Company B did not have a sustainability manager position, but the legal adviser led the sustainability work and was therefore interviewed. The interviewees were sent a few of the interview questions via email prior to the meeting. Interview questions were designed on the basis of DiMaggio and Powell’s (1983) theoretical concept of institutional pressures and covered implementation of sustainability initiatives and the company, the WoC Sustainability Code, the Chilean wine industry, and the company’s international environment. Examples of interview questions posed are: “Do you feel that there is increasing pressure on wineries now to be environmentally and socially sustainable?” If the answer was confirmative, I asked: “Where do those pressures come from and why do you think we can see this international increased demand for certifications
and sustainability standards, if it is international? In what way does this manifest itself?” However, if the interviewees averted from the structure of questions I had prepared, the new direction of the conversation was pursued and often gave very interesting inputs (for interview transcripts and interview questions, see Appendix 2 & 3).

All interviews were conducted in English. The interviews were agreed to last 30 minutes, but differed in length from approximately 20 to 45 minutes. Furthermore, company interviews were conducted early on in the research process (November 19 – December 9 2013) and were meant to serve as an initial data collection and not the only basis upon which to articulate findings. In order to help the data processing and avoid researcher bias in relation to what language the interviewee used to describe a certain perception or situation, the interviews were recorded and transcribed. However, the fact that the interviews were not conducted in the interviewees’, or my, mother tongue might have affected the clarity with which they could express themselves. This might also have an affect on the conclusions drawn from the interviews. The interview with Parra at WoC was undertaken in April 2014 during the later stages of the study, as to allow for further questions and thoughts that had occurred during the investigation of industry and academic sources. The interview was conducted via Skype and lasted approximately 45 minutes.

In some of the cases, more time for further in-depth questions at the interview may have led to an enhanced understanding of the interviewee’s own perception of the sustainability development in the industry. Due to time constraints for the interviews as a result of the interviewees’ demanding work schedule and the fact that I was only in Chile for a limited time, this type of intensive interview design, albeit with extensive traits, was the best solution available. I was not able to get in contact with the representatives at the interviewed companies to ask follow-up questions as planned, and that is a factor that has affected the connection between certain aspects of the data and the discussion of the RQ. Nevertheless, the decisions made and presented here with regard to the data collection were taken with the purpose to ensure empirical adequacy of the data in relation to the RQ, given the prerequisite conditions.

2.3 Chapter Conclusion

This thesis is founded on critical realist ontological and epistemological assumptions, which guides the researcher to ascertain connections between the three levels of reality. We cannot observe the deep, “real”, level of reality and in order to produce knowledge about how underlying powers affect the empirical events we can observe, it is not sufficient to solely focus on the empirical level of reality. This is the philosophical stance that guides the methodological decisions made in this thesis. Furthermore, the ‘explanatory model of critical realism’ (Danermark et al., 2002) serves as the structure for the research process. I deemed it important to present these methodological choices, to clarify why the chapters come in the order they do.
Furthermore, there is one additional important methodological aspect that has not been treated so far; namely how one evaluates the research findings and conclusions drawn. In critical realism, the concept of “practical adequacy” is one such evaluation of the knowledge produced, since “[k]nowledge is useful where it is ‘practically-adequate’ to the world.” (Sayer, 1992, p.70). Practical adequacy is about evaluating the truth we have come to know through research, in terms of “the extent to which it generates expectations about the world and about results of our actions which are realized.” (Sayer, 2000, p.43) The notion that a researcher’s observation of an event is “theory-laden”, and not theory-determined nor theory-neutral, is important for this concept – the truth as we observe it is a matter of practical adequacy (Sayer, 1992). Hence, when evaluating the outcome derived from this analysis, I will have to assess how well my explanations of the phenomenon investigated relates to the world. That implies that my findings should be evaluated according to the extent to which they are a “good interpretation” of reality. Since our interpretations of the world are context-dependent, it also implies that more than one explanation for why the process of increased focus on sustainability in the Chilean wine export industry has occurred can be practically adequate (based on Sayer, 1992; 2000). The following chapter describes and conceptualizes the sustainability development in the Chilean wine export industry through the use of “everyday” concepts.

---

1 Descriptions of a situation “based on the everyday experiences of people involved” (Danermark et al., 2002, p.144)
3. Background and Industry Analysis

The purpose of this chapter is to describe and conceptualize properties and causal mechanisms that have generated the sustainability development in the Chilean export wine industry. In order to do so, perceptions of the situation as described by academic scholars and industry participants are presented. At this stage, concepts and mechanisms are conceptualized according to how industry participants and academic scholars define them. That is by the use of “everyday” concepts, in contrast to theory-specific concepts that are conceptualized in chapter 4. First, the following sections deal with recent developments in the global wine industry. Second, characteristics of the wine industry globally are presented and the degree of rivalry is described. Third, attention is paid to sustainability in the global wine industry, and a review of literature on the subject of business-driven sustainability initiatives attempts to address some possible explanations for why the Chilean export wine industry has developed its sustainability practices. Fourth, an analysis of the Chilean wine industry is presented, including a separate section on the sustainability development in the industry and WoC’s Sustainability Code. Last, the Swedish market for wine and sustainability standards incorporated into Systembolaget’s purchasing practices are presented in order to illustrate the relationship between the Chilean wine export industry and the Swedish monopoly.

3.1 Analysis of the Global Wine Industry – an Overview

Globalization is not a new phenomenon that affects the international wine industry. Historically, grapevine-growing techniques and know-how have been transferred from place to place, from continent to continent, over the last 6,000 years (Anderson, Norman & Wittwer, 2003). France, Spain, Portugal and Italy are today commonly referred to as the “Old World” wine producers and have had well-established grapevine cultivation since sometime around 300 AD (Labys & Cohen, 2006; Banks & Overton, 2010). “New World” wine producing countries, on the other hand, is a term widely used for South and North American countries, where European explorers introduced wine production in the 1500s and early 1800s, respectively. However, this New World categorization is also used for South Africa, where cultivation began in the mid-17th century, as well as for Australia and New Zealand, where wine production for commercial use began around the mid-1800s. Up until the end of the 20th century, New World producers had minimal impact on global markets, as Western European producers represented more than 75% of world production (Anderson, Norman & Wittwer, 2003).

Today, however, New World wine producers are, to various degrees, gaining international market shares. Countries such as Chile, the US and Australia increasingly export to Western European markets, but also to other regions. Old World producers, on the other hand, experience a decline in market shares. A growing international consumer middle class has triggered radical structural changes in global wine markets, as both developed and developing countries are supplying the global market with quality wines (Labys & Cohen,
Along with increased globalization in the 1980s came a decrease in tariffs, transportation costs, and other trade barriers. Together with political and religious reforms in many of the New World producer countries, it became possible for such producers to reach consumers in other regions. Hence, globalization forces have not only yielded a change in international wine consumption and production, but have also made the global wine market more competitive (Hussain, Cholette & Castaldi, 2007). Increased competition has pushed both Old- and New World producers to target “untraditional” markets, such as China and India, due to their long-term potential (Hussain, Cholette & Castaldi, 2007; Barnes, 2013).

3.1.1 Global Wine Industry Characteristics
In order to understand the characteristics of the global wine industry in which the Chilean wine industry is integrated, one must take a look at current developments on the international market. Specific attention is paid to demand and production structures, as well as competitive rivalry in the industry, as these circumstances form the preconditions for Chile’s wine industry to be a strong international player.

“Wine is the beverage resulting exclusively from the partial or complete alcoholic fermentation of fresh grapes […]. Its actual alcohol content shall not be less than 8.5% vol.”, according to the International Organisation of Vine and Wine (OIV) (OIV, 2012). “Wine” includes the following products sold on the international market: still wine, sparkling wine, champagne, and fortified wine (wine with added spirit, e.g. brandy) (Marketline, 2013). The recent economic crisis has negatively affected the global wine market as the consumption level fell in both 2008 and 2009, after almost a decade’s growth. Nevertheless, a strong decrease in demand from European Union (EU) countries was to some extent compensated by increased demand from consumers in Asia and North America (Wines of Chile, 2010). Today, a few years later, consumption levels are stabilizing and figures for 2013 indicate that we will soon see wine consumption equal to levels prior to 2008 (OIV, 2013a; Roland, 2013a). In October 2013, global yearly demand for wine was estimated to nearly 3 billion cases, while approximately 1 million winemakers globally produce roughly 2.8 billion cases (about 250 million hectoliters (mhl) (OIV, 2013b)) each year. US consumption is now nearly as elevated as consumption in France, the world’s number one wine consuming country. Chinese demand has skyrocketed in the last five years, and is predicted to continue to do so and make China the leading wine market in the world by 2016 (Roland, 2013b). In contrast to the growing consumption in China and the US, consumption levels in France, Italy and Spain are dropping (Asimov, 2013).

The continued increase in consumer demand for wine is reflected in the total estimated value of sales on the global wine market, which grew by 2.8% in 2012, and is forecasted to increase 18% between 2012 and 2017. In terms of value, still wine represents the largest market segment, adding up to roughly 80% of the global market’s total value. In geographic terms, sales in Europe account for 63% of the global market value, followed by North and South American sales, together they represent about 20% (Marketline, 2013). With
regard to the industry’s global production level, it increased significantly during the year 2013 (OIV, 2013a). Much of this increase can be explained by a comparably low global production in 2012, but also by record-breaking production levels in Chile and New Zealand. Between New World producers, Chinese production levels are now second only to the US’ and this is remarkable, since Chinese-produced wine was almost non-existent in the mid-1990s (Roland, 2013a). After this brief outline of demand and production structures in the global wine industry, the following section deals with competition in the industry.

3.1.2 Competition in the Industry

This section portrays the degree of rivalry in the global wine industry and outlines future challenges for market participants. Porter’s “five forces” analytical framework (e.g. 2008) is the inspiration for this analysis.

Marketline (2013) concludes that the global wine market is a highly fragmented market, abundant with both international and national players. Market concentration is low in most countries, although national markets are not all as fragmented as the global market. Main buyers in the global wine market are hyper-and supermarkets that distribute roughly 40% of the market’s total value and have a strong price negotiation position. Generally, global buyers are fragmented, but in parts of Europe (for example in Scandinavia), buyer concentration is high, strengthening buyer power. Moreover, buyers’ switching costs are not significantly high and this further boosts buyer power in the industry, which is assessed as moderate (Marketline, 2013). Regarding supplier power in the industry, it is affected by mainly two factors: the vast number of independent grape suppliers, and the possibility for these growers to integrate forward into winemaking from alternative markets such as fruit sugar production. The former weakens the power of suppliers and the latter strengthens it. In total, Marketline (2013) asserts supplier power to be moderate.

Wineries specifically have difficulties to access good distribution channels when entering the global market. Considering supermarkets’ strong buyer power, prices obtained by wine producers are often driven down. As a result, economies of scale are important and this raises entry barriers in terms of large-scale production plants and capital outlay required. Furthermore, many markets are subject to tough regulation, which can also hinder new entrants. All factors considered, the threat of new entrants is moderate. Continuing, beer and spirits are the main substitutes to wine. Due to relatively low switching costs for both retailers and consumers, the threat of substitutes is strong. Finally, the global market for wine is highly competitive. Relatively low switching costs increase rivalry among firms. High fixed costs (as a result of economies of scale and prices driven down by supermarkets) also boost rivalry in the industry, which is moderate (Marketline, 2013).

As this section has outlined, competition in the global wine market is tough, and increasing. A growing number of exporters that are often quick to respond to changes in consumer demand have entered the market.
and are taking market shares. The global wine industry is quickly evolving and in order to stay competitive, exporters have to continuously address changing market conditions. The success of New World producers in general can be ascribed not only to their ability to respond to global demand changes, but also to the fact that many of these producers have integrated scientific innovation and institutional-building efforts into their marketing and branding strategies. Furthermore, as the importance of technological innovation in the industry grows, cooperation between research institutions and industry actors are deepening. In both Old- and New World countries, links between government actions and research efforts are strengthening, with focus on export-oriented strategies (Cusmano, Morrison & Rabellotti, 2010).

3.2 The Development of a Sustainable Industry

As mentioned earlier, sustainability is a growing trend in the global wine industry. This section aims to identify components for further research through a review of literature on the topic of sustainability in the international wine industry. The question “How and why has the increased focus on sustainability in the Chilean wine export industry occurred?” guides the specific areas for review. Sustainability tendencies in the international wine industry are considered initially, followed by Chilean industry specifics. Industry participants’ view on the subject complements the review of published work. Relevant theories and theoretical concept definitions are treated in chapter 4. The terms “sustainable wine” and “sustainable wine production” refer to conventional viticulture with respect for environment, people, and the economic bottom line, in accordance with the OIV’s and the International Federation of Wines and Spirits’ (FIVS) definitions presented below. No specific sustainability certification schemes are included in this definition.

3.2.1 Sustainability in the Global Wine Industry

Increased consumer demand for wine from environmentally sustainable and socially responsible production is an urgent challenge to address for the wine industry. There are, however, examples of national industries that have proactively engaged in the matter. One such example can be found in California, where the groundwork for the very first sustainable winegrowing program was done in 1992 (Szolnoki, 2013). New Zealand (NZ) is another example of a country that has promoted sustainability in wine making since the 1990s, long before consumer concerns were as pressing for the industry as they are today (Parkinson, 2011). However, it is important to understand what industry actors mean when they talk about sustainable wine production. The discussions on the topic in the media tend to focus on environmental sustainability efforts, such as improved irrigation systems, limited use of pesticides that in the long term endanger the land and pollute the ground water, etc. New Zealand Winegrowers association defines being “sustainable” as “delivering excellent wines to consumers in a way that enables the natural environment, the businesses and communities involved, to thrive.” (New Zealand Wine, 2014b). WoC’s definition also encompasses the

---

2 “[T]he cultivation or culture of grapes especially for winemaking” (Merriam Webster Dictionary, 2014)
social aspect of sustainability: “Sustainability means recognizing wine as part of a complete system that is not confined to the vineyard but that encompasses the winery, the employees, and the local community.” (Wines of Chile, 2010, p.51). This holistic approach is reflected in the respective trade associations’ sustainability programs (New Zealand Wine, 2014a; Wines of Chile, 2013a).

The global wine industry has developed a common approach to sustainability through the “Global Wine Sector Environmental Sustainability Principles” (GWSESP), established by FIVS. These (seven) principles mostly focus on issues concerning the natural environment, although the industry recognizes the “triple bottom line” of sustainability; economic, environmental and social sustainability (FIVS, 2006). FIVS is a non-governmental organization (NGO) of exporters, importers and trade associations within the beer, wine and spirit industry (FIVS, 2014). The OIV (that represents vinegrowers and winemakers around the globe) has also put together industry guidelines for sustainable viticulture. The OIV defines sustainability as:

“Global strategy on the scale of the grape production and processing systems, incorporating at the same time the economic sustainability of structures and territories, producing quality products, considering requirements of precision in sustainable viticulture, risks to the environment, products safety and consumer health and valuing of heritage, historical, cultural, ecological and landscape aspects” (OIV, 2008, p.2)

Clearly, the trend for sustainability is a global phenomenon in the wine industry, at least at the level of trade associations and international organizations. Nevertheless, based on the information above it seems that many of the initiatives undertaken so far are focusing efforts on environmental protection, leaving social and economic sustainability issues out of the equation. This supposition is supported by findings presented in Szolnoki (2013) regarding producers’ understanding (that is definition, practice and evaluation) of sustainable production. Through in-depth interviews with representatives from seven New- and Old World producer countries, he concluded that a common definition of sustainability is lacking in the industry, and that “the interviewed producers mainly associated the term sustainability solely with the environmental dimension” (Szolnoki, 2013, p.243). Szolnoki (2013) further argues that an investigation of the definition of sustainability in the wine industry is necessary since companies often have very different understandings of the actions required in order to be sustainable. I have not set out to find a definition of sustainability that can be agreed upon in consensus in the Chilean wine export industry. However, in the interviews, the wine company representatives were asked to define, in their own words, what sustainability means to their company. This was done in order to obtain a picture of how each company perceives the term, as this might affect how it interprets pressures for sustainability that stem from its external environment, and what effect such pressures have for the company’s sustainability practices. When asked what sustainable winemaking means to Company D, the interviewee said:
“We have been applying sustainability and the main principles for the company, the quality, the excellence, the tradition, the taking care of the land for instance, the soil [...] What is different today is that we put all the ingredients together and we have something that is more structured than it was before.” And continued: “The definition of sustainability, it’s something like everybody repeat without even knowing the meaning [...] We have simplified this concept, and we, when we talk about sustainability here inside the company, it’s all about giving back. Because giving back is the essence of sustainability.”

Company B’s representative gave a different answer when asked what sustainable winemaking signifies for the company: “It’s a very tricky question. For, right now, it doesn’t mean anything.” This of course does not mean that the company does not engage in sustainable practices (it measures its carbon footprint and recycles all glass bottles for example), or that companies with a clear definition of sustainable winemaking are “more” sustainable. However, these two examples illustrate Szolnoki’s (2013) argument that wine producers often have different interpretations of what sustainability requires, and that the industry lacks a common definition of the term.

3.3.2 Why do Businesses Engage in Sustainability Initiatives?

In order to reach a possible explanation for why the wine industry globally engages to make production more sustainable, I here dedicate a section to review academic work concerning the drivers behind voluntary business-driven environmental and social sustainability initiatives. Wine industry-specific literature is combined with writings on the topic of sustainable business initiatives as generators of competitive advantage for the firm. Industry-level sustainability efforts as generators of national competitive advantage are also discussed briefly. This literature review can provide a basis for understanding some underlying mechanisms that have caused the increased focus on sustainability in the Chilean wine export industry to occur.

“Competitive advantage” may be defined as having a “positional superiority in the market” or a “distinctive competence” (Littler, 2005). The possibility to achieve such an advantage is a principal motivating factor for environmental reporting and quality environmental management in the company. However, when it comes to developing corporate environmental standards and auditing of environmental practices, the level of regulatory standards on the market has been found to be the primary influence (Anton, Deltas & Khanna, 2004). Anton, Deltas and Khanna (2004) also established that several reasons lie behind companies’ decision to participate in voluntary environmental initiatives, namely the possibility to: achieve cost reduction and efficiency increase; delay or avoid regulatory action; gain competitive advantage; communicate a positive image of the company; comply with pressures imposed by trade partners such as suppliers and clients; and as a way to respond to pressures exercised by community groups and interest organizations. Sinha and Akoorie (2010) argue that companies in the NZ wine industry that have a high export commitment adopt environmental sustainability practices to a higher degree, than firms with a lower commitment to exports do.
Furthermore, they suggest that wine producers use such sustainability initiatives to upgrade their competitive advantage on the international market.

Flint and Golicic’s (2009) work on supply chains in the NZ wine industry showed that managers work to find ways to leverage “sustainability-related competencies” to acquire or sustain competitive advantage in a very competitive global industry. With “sustainability”, Flint and Golicic (2009) refer to environmental sustainability. Ways of searching for a competitive advantage includes: “pursuing and leveraging sustainability; telling a story that involves sustainability; managing supply chain relationships around sustainability; and experimenting with sustainability initiatives.” (Flint & Golicic, 2009, p.841). Notably, the findings presented above are all in the area of environmental voluntary sustainability initiatives. What can be said about social initiatives? Ostrom (2009 in Grimstad, 2011, p.63) claimed that sustainability research often neglects local social systems in its focus on environmental aspects of sustainability. With regard to literature on sustainability in general (and in the wine industry specifically), there is a lack of academic studies that address why companies engage in social sustainability initiatives. My aim is to address external drivers with regards to all-encompassing sustainability in the Chilean wine export industry, and thereby address this gap in the literature to the extent that it is possible in this thesis.

When speaking of competitive advantage on an industry level, it must be distinguished from firm-level competitive advantage. Porter (1990) defines national competitive advantage as dependent on its industry’s ability to innovate and upgrade, as well as on “national values, culture, economic structures, institutions, and histories.” (p.74). Porter here means “innovation” as both technological advances and generally “new ways of doing things” (Porter, 1990, p.74). Hussain, Cholette and Castaldi (2007) studied the global wine industry and found that the possibility for a country’s industry to adapt to changes affects its level of competitive advantage compared to other nations in the industry. However, other factors such as the ability to attract foreign investors and the size of producer firms also may affect the success of the wine producing countries (Hussain, Cholette & Castaldi, 2007). This leads to the question if the possibility to achieve national competitive advantage can be a motivating factor for the Chilean wine industry to engage in sustainability initiatives? From their study of the NZ wine industry, Flint and Golicic (2009) suggest that industry-wide sustainability initiatives can be a differential advantage on the international market. They mention the NZ sustainability initiative (vineyards that conform with set sustainability standards are certified with the “New Zealand Sustainable Winegrowing seal” (New Zealand Wine, 2014b)) as an initiative that has the possibility to differentiate NZ from other wine nations. It should be clarified that the authors underline that these findings can only be applied in the specific context of the study. In order to enable further analysis of why there is an increased focus on sustainability in the Chilean wine export industry, I will now proceed with an analysis of the Chilean wine industry.
3.3 Analysis of the Chilean Wine Industry

This section is dedicated to features of the Chilean wine industry. First, export and domestic market characteristics are outlined. Second, the sector’s perception of its strengths and weaknesses are presented and WoC’s ‘Strategic Plan for the International Market’ is outlined briefly. Third, contextual factors that may affect the industry’s sustainability development are looked into. Tendencies and perceptions presented here are views of academic scholars and industry participants.

3.3.1 Industry and Domestic Market Characteristics

The wine industry in Chile has undergone significant changes during the last 30 years. It began in the 1980s as technological upgrading led to a quality “revolution” within the industry (Felzensztein, 2011). Remarkable growth in wine production can be ascribed to a stable political and economic environment, advantageous natural conditions, and the integration of technology and science in the production chain (Felzensztein & Deans, 2013). Between 2008 and 2012, Chilean wine production volumes increased by close to 45%, from 8,680 mhl to 12,550 mhl, and today Chile is the world’s seventh largest producer of wine, in volume terms (OIV, 2013b). Over the last years there has been a substantial price increase for wine and grapes and this has enabled especially smaller producers to quality ensure their vines, entailing a marked upsurge in production levels. Chile has approximately 8,000 wine grape producers and red wine varieties accounts for 69% of the total wine production (USDA, 2013). The domestic wine market is small, with relatively low prices (Bianchi & Wickramasekera 2013). Per capita national consumption volume in Chile is lower than in all other major wine producing and exporting countries (OIV, 2013b), and it is declining (Euromonitor International, 2014).

The three largest wineries in Chile stand for 88% of total volume sales on the domestic market: Viña Concha y Toro (Company D) and Viña Santa Rita with 30% sales share each, while Viña San Pedro Tarapacá (Company C) has a 28% share of market sales (Euromonitor, 2014). The three most important wine regions in the country are Colchagua, Casablanca, and Maule (Bell & Guliani, 2007). The Colchagua valley has experienced impressive (export-oriented) growth since the start of the 1990s and firms within the region are connected in a cluster formation (Bell & Giuliani, 2007; Giuliani, 2013). According to Porter (2000, p.16): clusters are “geographic concentrations of interconnected companies […] in a particular field that compete but also cooperate.” Grape growers and wine producers today make the cluster heavily populated. Moreover, producers in the region have received international recognition, as two of the 100 wines on the list of top wines 2007 in the wine journal ‘Wine Spectator’ were from Colchagua. Initiatives that have contributed to make the Colchagua cluster competitive on the international market are investments in infrastructure, the creation of a wine production-training institute, and linkages in place between wine companies in the cluster and the University of Talca. These linkages are often successful at diffusing knowledge (also to companies...
in the cluster that lack university linkages) and can thereby produce positive economic effects (Giuliani & Arza, 2009; Giuliani, 2013). There are also such linkages in place between WoC and the University of Talca, which resulted in WoC’s National Sustainability Code (see section 3.3.5).

3.3.2 Chilean Wine Exports

Chile is the fifth largest exporter of wine in the world (OIV, 2013b). Industry exports of 880 liters in 2013 (Vinos de Chile, 2013) represent approximately 3% of Chile’s total exports, and 14% of exports in the forestry-agriculture-livestock sector. There are over 300 wine export companies in the country, but the ten largest producers together represented over 50% of total exports in 2011 (Dowling, 2012). 79% of export companies are small and medium-sized enterprises (SMEs). As the wine industry develops and geographically diversifies, it attracts foreign and domestic investment, also to regions that previously have not received much attention from investors (Wines of Chile, 2010). Wine from Chile reported a continued volume increase of about 17% and a 5% value increase during 2013, the value of 2013 exports amounting to approximately US$ 1.9 million. Most noteworthy is the value increase for premium wines, and the fact that the registered volume increase for premium wines and the volume decrease for non-premium wines are in line with WoC’s Strategic Plan 2020 (Vinos de Chile 2013) (see section 3.3.3). A survey conducted in 2009 concluded that approximately 67% of Chilean wineries’ revenue stem from international markets. This is high compared to one of the industry’s most important competitors’ (Australia’s) average of 49%, and an indication of how reliant Chilean wine firms are on export markets (Bianchi, & Wickramasekera, 2013).

Chilean wine firms are inserted into global value chains which structure should be viewed as a network, rather than hierarchical. The Chilean wine sector is an example of a sector where firms have significantly upgraded and where developing country firms enjoy bargaining power in an agro-industrial global value chain. Many Chilean wine exporting firms have indeed been successful in gaining access to large distribution channels, such as supermarkets, in a vast number of countries. However, these firms have also become extremely dependent on the bonds made with supermarkets in main markets, like the UK. UK supermarkets have been able to drive down prices for Chilean wine, although impressive increase in export volume has followed. The export value of Chilean wine augmented from US$35.4 million in 1989 (the last year of the Pinochet dictatorship), to US$1 billion in 2006, much thanks to the industry’s increased economic sustainability and technological upgrading (Gwynne, 2008).

3.3.3 Wines of Chile and SWOT Analysis

The trade association Wines of Chile (WoC) plays a crucial role for the sustainability development in the Chilean wine industry, as it is connects wine export producers in the country with external trade partners. WoC is a public-private organization, co-funded by Vinos de Chile and the Chilean state, which contributes to 15% of marketing funds through ‘ProChile’, the government funded export promotion agency (USDA,
WoC’s primary role is to promote the quality and image of Chilean wine outside the nation’s borders (Wines of Chile 2012c). Non-tariff barriers in consumer markets are a problem for the Chilean wine industry (Wines of Chile 2010) and WoC’s presence in international markets enables it to address and interpret diverse legislation and import standards in place on different markets. The organization cooperates with ProChile to offer educational and promotional programs to spur international interest for Chilean wine. With offices in Santiago, London and New York (and representation in Asia, Europe, Canada and Brazil), WoC is present in all major consumer markets. The close to 100 member wineries represent 90% of Chile’s total wine exports. Member benefits include free participation in all marketing and promotional activities worldwide, contacts to international offices, and access to market intelligence reports and statistics concerning both established and evolving markets (Wines of Chile, 2012c). Representatives from some of the most influential wineries in Chile constitute the trade association’s executive committee and advisory council (Wines of Chile, 2012a; Wines of Chile, 2012b). The largest part of WoC’s budget goes to promotional activities in key consumer markets (The US, the UK, Canada, and Germany). In other markets, like Russia, Brazil, Denmark and Sweden, an annual “wine show and tasting” activity is arranged by ProChile that stands for logistics and contributes with market information, while wine exporters pay the costs (USDA, 2013).

Through its international presence, WoC has gained an understanding of the industry’s primary strengths, weaknesses, opportunities and threats. In WoC’s SWOT analysis of the Chilean wine industry (Wines of Chile, 2010) the lack of an existing country image is listed as the number one weakness. US and UK consumers have a low affinity with Chile as a country and “[t]his is consistent with the country image studies that conclude that Chile has a neutral or nil image among international consumers at the mass level.” (Wines of Chile, 2010, p.40). Despite this, Chilean wine reaches 150 countries and 1.5 billion consumers every year, which makes the wine industry arguably well positioned as the best-known and most representative ambassador for Chile abroad (Felzensztein & Deans, 2013). Another significant weakness of the industry is Chile’s reputation as a producer of low-priced wines (Wines of Chile, 2010). Growing competition from countries with more aggressive promotion and price programs is a threat to the Chilean wine industry (Wines of Chile, 2010), whose profitability levels are low (Felzensztein, 2011).

WoC has an objective to grow Chilean wine exports by 9.2% annually in value terms, to reach a total value of bottled wine exports of US$3 billion by 2020. Reaching this goal means almost tripling the value of 2009 exports (Wines of Chile, 2014). Changing consumer preferences toward increased premium wine consumption in primary target markets offer opportunities for the industry to meet its objective. Growing international demand for environmentally sustainable and socially responsible wine also provides an opportunity for the Chilean industry, as one of its primary strengths is the great potential for high quality and sustainable viticulture, much due to climate conditions (Wines of Chile, 2010). In short, Chile’s wine
industry’s problem is one of profitability, not sales (Wines of Chile, 2012d). WoC’s Strategic Plan for the period 2010–2020 therefore includes pushing for a value and volume increase in the premium wines segment. As mentioned, the industry also aims to become the number one New World producer of sustainable wines by 2020 (Wines of Chile, 2010).

3.3.4 Industry Contextual Factors

In the review of literature above on why companies and industries engage in sustainability initiatives, it was concluded that company- and industry-external factors act as drivers for engagement in sustainability initiatives. National economic and political conditions, as well as bilateral relations with international trade partners, are important environmental factors that can shape the conditions for Chilean wine export industry. This section therefore pays attention to such factors.

Chile is a country with approximately 17.5 million inhabitants and a gross domestic product (GDP) of nearly $270 billion (and a 5.6% GDP growth), based on 2012 figures. The percentage of the population that lives below the national poverty line has decreased from 20% in 2000, to 14% in 2011 (approximate figures) (The World Bank 2014a). The country is one of the fastest growing economies in Latin America and over the last 20 years real per capita income has almost doubled. After the Pinochet dictatorship fell, Chile committed to economic reforms and social investments. Compared to many of its continental neighbors, the country has a large financial system, as well as a solid regulatory and supervisory framework in place (The World Bank, 2014b). The wine industry benefits from free trade agreements that enable duty free exports to Canada, Mexico and the EU, as well as to all Mercosur member countries. One factor that has affected Chilean wine exporters’ economic return is the fall in value of the US dollar against the Chilean peso (USDA, 2013). Wine exporters are subject to exchange rate risk, since roughly 2/3 of total production is exported and wineries thereby largely rely on a dollar income, but have expenses in pesos (Dowling, 2012). This was also pointed out in interviews with companies. Company D said: “[T]he price of the dollar, which is very important for us because all the exports are made in dollars, is getting very low so it’s a difficult situation, especially for the small wineries.” The aftermath of the economic crisis may also affect many smaller wineries in the industry, especially those that export to few markets and rely mostly on sales in Europe and in the US. During the interviews, it was mentioned that those markets are still “wondering when the crisis is going to finish” (Company D representative).

A report published by The Economic Commission for Latin America and the Caribbean (ECLAC) (Visser, 2004) states that the Chilean government has played a passive, non-strategic role for wine industry developments. According to the USDA (2013), the Chilean government provides no subsidies for exports, or wine production. However, ProChile got positive remarks from wine experts in ECLAC’s report (Visser 2004) with regard to marketing, promotion and internationalization guidance offered in ProChile offices.
adjunct to Chilean Embassies around the globe. ProChile has over 50 offices in trade partner countries (ProChile, 2014). Notably, there is a “Nordic” ProChile office in Stockholm, Sweden, that provides Chilean exporters with information about the Nordic wine markets. Other public institutes involved in issues concerning the wine sector in Chile are the Agricultural and Livestock Service (SAG, by its Spanish acronym) and the Chilean Economic Development Agency (CORFO, by its Spanish acronym). SAG can offer help for wine producers concerning legislative issues, while CORFO has been involved in tourism promoting activities, as well as technological projects (Visser, 2004). However, the technological efforts have received critique from industry experts for low flexibility and administrative-bureaucratic procedures. The ECLAC report concludes: “Chilean governments also seem unwilling and reluctant to get involved with the private sector.” (Visser, 2004, p.40).

Although the above-mentioned report was published ten years ago and the reality in Chile has change significantly since then, it is the most recent report of its kind and its findings suggest that increased cooperation between the Chilean government and the country’s wine export sector is desirable. WoC (2010) has called for public policy incentives, which promote partnerships between actors in the industry, and for increased funding for its operations both from the industry and government, through ProChile, CORFO, and the Image País Foundation (that promotes the Chilean brand across the globe) (Wines of Chile, 2010). The same request was implied in the interviews, when Company A’s representative voiced how the company does not feel it gets any support from the government in developing its environmental sustainability practices; to improve energy and water practices, soil and biodiversity for example. Company D mentioned that lack of government “attention” may be a result of the fact that the Government does not consider the wine industry an environmental threat, and explained that “I think we are not perceived as a sector which is pollutant or destructive, or bad performance sector [...] I think the reason is because in Chile we have a lot of activity in mining. And mining is bigger, and also it’s much more non-environmentally friendly than wineries.” Nevertheless, the government does provide incentives for socially sustainable development of the wine sector, through a tax deduction program offered by the National Training and Employment Service (Carolina Wine Brands, 2012b). Also, through CORFO, the Government has contributed with funds to a supplier development project specifically for the wine industry. This project aims to ensure the quality of suppliers’ products and services, as well as to integrate suppliers into productive chains (VSPT Wine Group, 2013; Carolina Wine Brands, 2012b).

3.3.5. Sustainability in the Chilean Wine Industry

The export-driven character of the Chilean economy has developed a fast response to demands and trends in overseas markets among Chilean exporting companies (Ariztía et al., 2013) and the wine industry is no exception. This section is an overview of current sustainability trends in the Chilean wine industry and outlines main characteristics of the WoC Sustainability Program. I devote specific attention to the
Sustainability Code included in the program, as it is one specific initiative that aims to streamline the sustainability development in the Chilean wine industry, and the number of certified members is increasing (Parra, 2014b).

Judging from media coverage, industry reports and academic articles on the subject, sustainability is a hot topic in the Chilean wine industry. From conventional sustainable, to organic and biodynamic winegrowing and production, wineries adapt to changes in consumer demand and try to be proactive in their differentiation of products. This is reflected in the increasing numbers of certified wineries and viticulturists in Chile (Wines of Chile, 2009). Alvaro Espinoza is a pioneer for sustainability in the Chilean wine industry and winemaker consultant at Emiliana Organic Vineyards where some of Chile’s most renowned organic and biodynamic wines are made. In a recent Fox News (2014) article he expresses his view that Chile’s “new generation is much more conscious about environmental problems and more committed to healthy, sustainable agriculture […] and also for the production of wines that have a stronger connection to the Earth,” which is why he thinks that Chile’s global image is going to be improved with this new generation of winemakers (Fox News, 2014; Emiliana Organic Vineyards, 2014). Espinoza is not the only one who expects sustainable viticulture to be the way forward for Chilean wines on the international market. According to the late Michael Cox, WoC’s former European director, Chile has for many years gone “under the epithet of ‘a viticultural paradise’ and thus is the perfect place to make ‘natural’ wines.” (Parkinson, 2011, p.19) This is also expressed in WoC’s tagline: “Wines of Chile – The Natural Choice” (Wines of Chile, 2012c).

The ‘Wines of Chile Sustainability Program for the Chilean Wine Industry’ comprises a number of projects and initiatives with the aim to establish “environmentally friendly, socially equitable, and economically viable” production processes in the industry. The program was initiated in April 2010 and includes two major parts; the Sustainability Code, and projects specifically related to the Code’s key areas (Wines of Chile, 2013b). It was not one event or specific occurrence that led to the creation of the Sustainability Code, but rather a combination of factors. Above it is mentioned that becoming a leader in sustainability is part of WoC’s 2020 value-enhancement strategy, and that was a contributing factor for the creation of the Sustainability Program and its initiatives. According to Patricio Parra at Wines of Chile, one factor that contributed to the development of the Sustainability Code specifically was the fact that competitors (e.g. Australia and South Africa) were developing their own sustainability codes. Furthermore, signals perceived from the global market in terms of increased demand for sustainable certified wines, as well as an aspiration within the industry to be more sustainable, also contributed to the decision (Parra, 2014b). The code serves the purpose of setting standards for sustainability practices throughout the winemaking value chain, at the same time as it is a measurement tool for practices within three areas of production: Vineyard (Green
Chapter); Winery (Red Chapter); and Community (Orange Chapter) (Wines of Chile, 2013b). Parra emphasizes that “We do not intend to replace national or international legislation with the Sustainability Code, it’s just a management tool for wineries in order to improve their performance in sustainability areas; social and environmental” (Parra, 2014b). The Code is a concrete checklist for evaluation as well as a recommendations manual to help wineries improve on each control point. Its Green Chapter focuses on natural resources, agrochemicals (pesticides, fertilizers etc.) and industrial safety. The Red Chapter is also environmentally focused but within the area of the winery where the processing takes place, not the vineyard surface area. Focus here lies on efficient use of energy and water, and recycling and pollution prevention. Finally, the Orange Chapter is concerned with social responsibility and focuses on business ethics and environment, conditions for workers, relationship with the surrounding community, as well as marketing and consumers (Wines of Chile, 2013b) (See Figure 1 below).

The Sustainability Code is reviewed and updated every two years (I+D Vinos de Chile Consortium, 2014a). The certification process began in 2010 with certification of the vineyard (green) area only. Certification of red and orange areas was initiated in 2012 (Wines of Chile, 2013b). Certifications are granted based on third party audits, conducted by one of five certification bodies. The process is paid for by the wineries, via WoC’s consortium. Future plans include making the certification process economically separated from the association (Parra, 2014b). Each certification (divided into the different areas) is valid for two years (Wines of Chile, 2013b) and in early April 2014, 45 wineries (nearly 50% of member wineries) had been certified in all three areas of the code (I+D Vinos de Chile Consortium, 2014b).

![Figure 1. The Three Areas of Wines of Chile’s National Sustainability Code and the Sustainability Seal](https://www.sustentavid.org)

Copyright: Wines of Chile
Chile is one among several countries that have developed national or regional wine sustainability programs, the example previously mentioned is NZ, but other such programs are for example in place in California (Wine Institute, 2014), Australia (Wine Australia, 2007), and South Africa (Wines of South Africa, 2014). According to the trade organization itself, the Code’s “comprehensive approach makes WoC’s Sustainability Code the most ambitious and comprehensive code among wine producing nations.” (Wines of Chile, 2013b). One example of a “failed” sustainability program is the Oregon Certified Sustainable Wine Program (OCSW), which got discontinued in 2013. With the program, initiated in 2008, the Oregon Wine Board tried to simplify the certification “jungle” for consumers and to streamline marketing efforts. The OCSW label incorporated several environmental sustainability certifications, but it proved too difficult a program to sustain when only a small percentage of wineries joined and government grants dried up (Nigro, 2013). However, two major differences between the OCSW and the WoC Sustainability Code are 1) that the former was less inclusive as it lacked the social responsibility aspect of sustainability, and 2) the fact that the WoC Sustainability Code is the only code of its kind in Chile.

Despite being off to a promising start, it is too early to evaluate any impact the Sustainability Code has had for the promotion of sustainable initiatives in the industry (Parra, 2013). However, judging by the number of certifications issued, the certification seal seems appealing to many wineries, as nearly 50% of WoC members have become certified (I+D Vinos de Chile Consortium, 2014b). Nevertheless, challenges remain and one of the greatest trials the wine industry is faced with today, according to Claudia Carbonell, Manager of WoC’s technical consortium, is to spread sustainability practices to all actors in the industry. Although wineries are increasingly incorporating sustainable practices into their production, Carbonell argues that also suppliers, local authorities and the Government need to be involved to legitimize the process and secure a good reputation for sustainable development in Chile (El Mercurio, 2013).

In March 2014 Vinos de Chile signed a memorandum of understanding with the BSCI that establishes a mutual recognition between the parties and plans of future cooperation in some form. A specific action plan for this cooperation will be developed during spring and early summer 2014 (Parra, 2014b). The BSCI is an initiative launched in 2003 by the Foreign Trade Association (FTA), the principle global supply chain and trade policy association in Europe (FTA 2014, BSCI 2014a). It was created “in response to the increasing business demand for transparent and improved working conditions in the global supply chain.” (BSCI, 2014a). The initiative’s aim is to aid companies and associations in their strive to create an ethical supply chain. When joining the BSCI, companies accept to implement the 11 principles of the BSCI Code of Conduct (BSCI, 2014a). ILO conventions, UN’s declarations, and OECD guidelines concerning labor laws are the main standards upon which the BSCI Code is built. Its core principles aim to provide the highest
possible labor protection, such as ‘fair remuneration’ and ‘no child labor’. Environmental sustainability is also represented, as ‘protection of the environment’ is a core principle of the code (BSCI, 2014b).

3.4 Chilean Wine on the Swedish Market

In this section attention is paid to Chilean wine’s presence on the Swedish market for wine and demands for sustainability standards in place on the market. In the Nordic countries, with the exception of Denmark, wine is sold to consumers through state-led monopolies and cannot be bought in supermarkets, although sales in restaurants and bars is allowed, as well as direct import by customers following specific rules. Sweden is an example of a market that has stringent sustainability standards in place, through Systembolaget’s membership in the BSCI (Systembolaget, 2012b) and since the monopoly has an ongoing cooperation with WoC to improve the Sustainability Code, the case of the Swedish market is interesting.

Today, the wine sold on the shelves in all Nordic countries has been cultivated, processed and bottled in a large number of countries, in both the Northern and Southern hemisphere. In Sweden the state-led Systembolaget had a monopoly on alcohol sales to restaurants until 1995, but this monopoly now only covers direct sales to consumers (Systembolaget, 2013b). However, it is also possible for customers to directly import wine, if certain regulations are followed (Tullverket, 2014). Systembolaget imports approximately 80% of total wine imports to the Swedish market (CBI 2011b). The following statistics and information only include sales through Systembolaget, not by restaurants or through direct import. In number of total listings for red and white wine together, Chile is number four among New World producers with a total of 306 listings, considerably fewer than South Africa (641 listings) and the US (526 listings) (Systembolaget, 2014f; Systembolaget, 2014c). Chile sells more liters of wine on the Swedish market than does the US, however, despite fewer varieties listed. It is especially in the red wine category that Chilean wine is popular, with a market share of 7.3% in 2013 (Systembolaget, 2014a). Chilean bottled exports to Sweden in 2013 represent a mere 1.5% of total Chilean bottled exports, in value terms. Volume wise, only 0.1% of total bottled wine exports from Chile reach the Swedish market (based on numbers provided by WoC) (Parra, 2014a).

There seems to be a lack of research on the topic of what “being sustainable” means to Swedish consumers, and how they perceive sustainable wine in particular. Nevertheless, an analysis of consumer trends on the Swedish market for wine conducted by the Ministry of Foreign Affairs of the Netherlands (CBI) in 2011 points to how consumer demand and the state-led Systembolaget’s mandate to “limit the medical and social harm caused by alcohol” (Systembolaget 2010b) equally shape these trends. The CBI report states: “Since the State monopoly’s focus lies on responsible alcohol consumption and quality, instead of on profit maximisation, there is more room for sustainability in Sweden.” (CBI, 2011b, p.1). Furthermore, Swedish
consumers are becoming more interested in high quality wines and there is an increased concern about how sustainable the wine is. This leads to an expected increased demand for organically certified and ethically produced (e.g. Fairtrade certified) wines on the market (CBI, 2011c). Furthermore, Systembolaget aims to increase its sustainable offer (all beverages included) from 3% in 2013 to 10% in 2020 (Systembolaget, 2014b). The monopoly’s organic wine sales increased by more than 5% during 2013, compared to the year before (Systembolaget, 2013c). According to Systembolaget’s customer service (via telephone, 23 April 2014) there are no statistics available yet regarding sales of ethically certified wine, nor for wine that has been CO₂ compensated. The reason for this might be a relatively low sales volume of such wines – Fairtrade wine sales mounted to just over 1% of Systembolaget’s total sales volume in 2009. Nevertheless, Systembolaget’s sales of Fairtrade wine grew by 19% in 2009 (CBI, 2011c). Given the development on the Swedish market there is no reason to believe that sales in this product category are decreasing. Information depicted here indicates that Chilean “sustainable wine” has potential on the Swedish market, although it is currently a very small market for Chilean exporters.

3.5.1 Systembolaget’s Sustainability Standards

Since Sweden is a member of the EU, EU law sets the formal obstacles for market access to the Swedish market. The EU sets food and drink regulations, mostly focused on hygiene and traceability of products, and these legal requirements must be fulfilled before a product is marketed in the EU. There are also specific requirements and procedures in place for wine imports from non-EU countries, including import license requirement for large volume imports (CBI, 2011a). Additional requirements, or “non-legislative requirements” (such as environmental or social requirements) are not set up by EU bodies or member states, but by companies, such as Systembolaget (CBI, 2011a).

Since 2008 the five Nordic Alcohol Monopolies (NAMs) in Sweden, Norway, Finland, Iceland and the Faroe Islands cooperate to create a sustainable supply chain (Systembolaget, 2012a). These five actors do not only represent five companies, but countries, and therefore they have the power to affect the sustainability development throughout the supply chain for wine (Systembolaget 2010a). In 2010 it was decided by the monopolies that Systembolaget in Sweden and Alko in Finland would proceed and apply for membership of the BSCI, while the others would not. Nevertheless, the NAMs’ Code of Conduct is the BSCI Code of Conduct (The Nordic Alcohol Monopolies, 2011) and the code was incorporated into the import standards for all the NAMs in January 2012 (see Appendix 6). As a member of the BSCI, Systembolaget has the mandate to conduct training in areas of the code so that suppliers have better knowledge of the code’s requirements and have better chances to perform in line with these requirements. During 2013 and 2014 Systembolaget is conducting revisions in supplier countries that are considered to have higher risk for non-compliance; among them Chile (Systembolaget, 2012b). Chile is no longer considered a “risk country” by the BSCI and it is therefore up to BSCI members to decide whether or not to
continue to ask for third party audits of suppliers in Chile. Systembolaget has decided to continue its request for such audits for the time being (Parra, 2014b).

It should be mentioned that Systembolaget’s purchasing is not done directly with Chilean wine companies, but through intermediary licensed importers or distributors to the Swedish market and has been this way since the import monopoly was abolished when Sweden joined the EU in 1995. More than 80% of wine sold on the Swedish market is sold via Systembolaget and the monopoly owns its retail chains. Almost 55% of the wine bought by Systembolaget comes from its ten largest wine suppliers. Systembolaget selects the wines in its product catalogue on a quality basis and in a brand neutral and non-discriminatory manner (CBI, 2011b). Registered suppliers (433 in 2010) can submit offers for tenders specified in the monopoly’s annual launch strategy (that specify wine characteristics sought after) and the final selection is then based on a “blind” tasting process (Systembolaget, 2010c). For 2014, Systembolaget are opening a few tenders with the specific requirement of the WoC Sustainability Code, but as the Code has not yet received “BSCI status”, Systembolaget cannot generally recognize the Code. Nevertheless, this is good news for Chilean wine according to Parra (2014b). The board of Systembolaget conducted an official visit to Chile in March 2014 and was present when the memorandum between the BSCI and WoC was signed. During their visit, Systembolaget representatives called on a number of wineries and vineyards, which led to an official letter to WoC with improvement suggestions. Among the points of improvement identified were a lack of communication between different stakeholders and workers’ lack of knowledge about the Code’s specific requirements. All in all, however, Parra underlines that Systembolaget was positive about the ongoing work with the Sustainability Code and that WoC does not necessarily agree with all of the suggested points for improvement (Parra, 2014b).

3.5 Chapter Conclusion

So far, perceptions expressed by industry participants and academic scholars about sustainability in the wine industry globally, and in the Chilean wine export industry specifically, have served to provide an empirical explanation for how and why the increased focus on sustainability in the Chilean wine export industry has occurred. The review of literature revealed several components to which more attention needs to be paid, in order to explain the underlying causal powers that drive this process. Sinha and Akoorie (2010) and Flint and Golicic (2009) found that the possibility to upgrade the company’s competitive advantage internationally was a driver for NZ wineries to adopt environmental sustainability initiatives. Furthermore, industry-wide sustainability initiatives were found to be a differential advantage for the NZ generic wine industry on the international market (Flint & Golicic, 2009).
This chapter has also identified several factors in the Chilean wine export industry’s external environment important for further study: The moderate level of competitive rivalry in the global wine industry is a motivating factor for the Chilean wine export industry to strategically address increased market demand for sustainable, high quality, wine in certain markets (Wines of Chile, 2010). Other contextual factors may be relevant for the industry’s sustainability development, such as the Chilean industry’s export-dependence and the lack of explicit demand from Chilean government bodies to improve the wine industry’s sustainability practices. According to WoC (Parra, 2014b), pressures for sustainability exerted by Systembolaget, and sustainability programs developed by international competitors, have had an impact on the WoC Sustainability Code (which is a sustainability initiative). One way to look at these pressures for sustainability exerted on the Chilean industry by actors and features in its external environment is through the theoretical concept of institutional pressures (DiMaggio & Powell, 1983). A discussion of relevant theoretical concepts follows in the next chapter.
4. Analytical framework

Through the development of an analytical framework, the aim of this chapter is to provide theoretical guidance for the analysis. In order to enable a causal analysis, pressures for sustainability put on the Chilean wine export industry described in chapter 3 here need to be theoretically conceptualized. The theoretical conclusions made in this chapter will provide a framework for the data analysis and guide the explanations of how and why the increased focus on sustainability in the Chilean wine export industry has occurred. First, the role of theory and concepts in the critical realist study is presented. Second, theoretical assumptions about organizations and their responses to institutional pressures in the external environment are reviewed. Third, motivations for why firms engage in socially responsible actions are theoretically discussed.

4.1 The Role of Theory and Concepts in the Critical Realist Study

In critical realism, theory is principally perceived as a tool used to conceptualize events and mechanisms, and relations between them (Danemark et al., 2002). Objects, or entities, constitute basic theoretical “building blocks” for an explanation in accordance with a critical realist methodology (Easton, 2010). Through abstraction, we can determine which characteristics, attributes, or powers are in fact necessary for the object to be what it is, and which characteristics are not (Sayer, 2000). Without concepts and relations between different concepts, we would not be able to develop social theories. A good concept is a concept that works well in practice to analyze reality, provides insight, and has sufficient explanatory power. In an internationally conducted study, as this one, language adds a dimension of complexity to the meaning and definitions of concepts. Terms that constitute concepts vary between languages, naturally. However, the meanings of terms can be the same across cultural and linguistic borders, although they can develop and change over time. Theoretical concepts are seen as the instruments with which we can analyze data and possibly develop a new understanding of that data. Furthermore, theories should be used to make interpretations and explanations of social reality, which is a complex reality. It can be argued that to code empirical data without theoretical concepts to guide the process might entail a risk of losing a deeper understanding of the observations (Danemark et al., 2002).

4.2 Institutional Theory

As earlier mentioned, pressures for sustainability from the external environment of the Chilean wine export industry can be seen as institutional pressures. The concept is founded on institutional theory assumptions about organizations; their actions and responses to pressures in their institutional environment. Therefore, I find it necessary to initially outline what institutions and institutional theory “are”. In critical realist terms, institutions are seen as “economic and social-structural arrangements” that “constitute the objective reality within which [social action] takes place”, but they do not determine the actions of people as such (Godard,
1993 in Delbridge and Edwards, 2013, p.934). As mentioned previously, social structures are what generate events, in other words; institutions function as “generative mechanisms”. Furthermore, contextual factors are determining for how people, as agents, perceive and experience structures (Delbridge & Edwards, 2013). Scott (2001, p.28) defines institutions as “composed of cultured-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life”, and “[i]nstitutions provide the framework – regulative, normative, and cultural-cognitive – within which actors define and pursue their interests.” (Scott, 2001, p.149). These statements build on Scott’s (2001) assertion that at the most fundamental level, institutions rest on three pillars; the regulatory, normative, and cognitive.

First, the **regulative pillar** exists because institutions in the broad sense regularize and constrain behavior. Regulatory processes can operate as formal mechanisms (e.g. courts and police) or informal mechanisms (e.g. “shunning activities”) and determine rules, laws, and sanctions. It is important to recognize that regulatory processes do not “happen” in isolation from society. For instance, social actors interpret rules and have a choice whether or not to conform to them, that is, regulative institutions interact with other institutional elements. Second, **normative systems** include values and norms, which define an objective (e.g. to be thought of as an ethically responsible company) and how to pursue it (e.g. through operating the business in line with society’s expectations for ethical behavior). Individuals have normative expectations on how other people or actors are supposed to behave, and the “focal actor” (in this example, the company) perceives this as external pressures. In one sense, normative systems constrain social behavior, but in another sense, they enable social action and can empower social actors (since they guide responsibilities and mandates). Third, the **cognitive-cultural institutional pillar** “recognizes that interpretive processes are shaped by external cultural frameworks” (Scott, 2001, p.58) and brings out the importance of our shared conceptions and the frames through which we make sense of social reality. Traditions and other “habitualized actions” are shaped by local contextual factors, but cultural theorists also emphasize the importance of greater institutional frameworks with their models for organization (Scott, 2001).

### 4.2.1 Institutional Theory and Organizations

With reference to this thesis’ objects of study, the concept of organizations, and its connection to the concept of institutions, needs attention. Institutional theory builds on the notion that organizations are embedded in wider institutional environments. Organizations’ actions and strategies are therefore largely guided by, or responsive to, structures and rules within the institutional environments in question (Powell, 2013). Organizations are interest-driven (DiMaggio & Powell 1983), although their “strategic choice” to pursue such interest is mediated by external pressures that stem from the institutional environment (Oliver 1991). The societal sector, or “organizational field”, is the unit of analysis in institutional research. A “field” can be understood as an arena where critical issues or events are interpreted and negotiated by actors with
competing interests. Such actors can for example be consumers, environmental organizations, key suppliers, competitors, or lawmakers (Powell, 2013; DiMaggio & Powell, 1983).

In order to understand why organizations act in a certain way, the concept of legitimacy is of central importance. Meyer and Rowan (1977) argued that organizations strive to incorporate practices through which they can increase their legitimacy. The institutional view of legitimacy is that it is “a condition reflecting conceived consonance with relevant rules and laws, normative support, or alignment with cultural-cognitive frameworks.” (Scott, 2001, p.59). Organizations that interact within fields are according to Scott (2001) constrained by cognitive, normative and regulative structures. Each of the three institutional pillars provides a basis for legitimacy, but on different grounds. Still, how can it be decided if an organization and its actions are legitimate? In fact, there are three different kinds of legitimacy: regulatory legitimacy emphasizes rule conformity, and organizations are legitimate when they operate within legal requirements; normative legitimacy has to do with fulfilling moral obligations, which might divert from compliance to regulatory rules; and cultural-cognitive legitimacy “rests on preconscious, taken-for-granted understandings” about what is accepted by a group of people with a common frame of reference (Scott, 2001, p.61). More simply, by working with accepted practices, organizations can project legitimacy, which can be achieved if the organization lives up to stakeholders’ expectations, and acts according to taken-for-granted norms in the organizational field (Sinha & Akoorie, 2010).

4.2.2 Institutional Pressures – and How They May Affect Organizational Practices

The concepts of isomorphism and institutional pressures can provide needed theoretical structure when discussing the process of increased focus on sustainability in the Chilean wine export industry. When separate organizations within the same line of business are structured into an organizational field, institutional pressures can drive them to become “homogenized”. The process of structuration determines the existence of such an organizational field, and includes four parts:

- Asserting if an increased interaction has taken place between organizations in the field;
- Establishing whether there has been an emergence of well-defined domination structures or coalition patterns;
- Concluding if there has been an increase in the amount of information organizations have to process and respond to; and
- Asserting if organizations have developed an awareness of “togetherness” with other organizations in the field (DiMaggio & Powell 1983).
According to DiMaggio and Powell (1983), it is the concept of isomorphism which best captures this homogenization process. Isomorphism can be defined as “a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions.” (DiMaggio & Powell, 1983, p.149) DiMaggio and Powell (1983) argue that organizations compete for more than customers and resources, they also compete for institutional legitimacy and political power. The concept of institutional isomorphism is therefore better suited to understand organizational life than the concept of competitive isomorphism, which focuses solely on organizations’ competition for economic “fitness” (DiMaggio & Powell, 1983).

DiMaggio and Powell (1983) have identified three isomorphic processes, or mechanisms, that lead to isomorphic change in organizational fields: coercive, normative and mimetic isomorphism. First, coercive isomorphism stems from the problem of legitimacy and from political influence, as both formal and informal pressures are put on organizations by other organizations and are also constituted by society’s cultural expectations. These pressures do not have to be perceived by the organization as forcing it to act in a certain way, but can also be understood as invitations or persuasions (DiMaggio & Powell, 1983). Coercion is also the primary mechanism of control in terms of regulatory institutions, and in most cases the use of coercive power is made legitimate by the normative framework in place (Scott, 2001). Second, organizations are subject to normative pressures that stem from professionalization. Professionalization in this respect means the desire of professionals (members of an occupation) to find a definition of their work and to ascertain cognitive legitimacy for what they “do”. One source of normative isomorphism is the fact that professional legitimation stem from a cognitive base framed by universities (that is, university members’ understanding of acceptable behavior). Another source of isomorphism can be found in professional networks that reach across organizations; trade associations being one example. Such associations, like WoC, can define normative rules about acceptable professional and organizational behavior. In this sense, professional networks are mechanisms that shape likeminded individuals that spread over different organizations, which can ultimately be a source of institutional isomorphism (DiMaggio & Powell, 1983).

In addition to coercive and normative “homogenization mechanisms”, institutional isomorphism can also derive from the force of uncertainty, which can lead organizations to mimic the behavior of others. In other words, mimetic isomorphism is a result of responses to uncertainty. Mimetic behavior can be encouraged by factors such as if an organization has a broad customer base, or if it employs skilled personnel. This, since the organization as a consequence perceives stronger pressure to offer the same services as other organizations in the field (DiMaggio & Powell, 1983). Nevertheless, how does this homogenization relate to diversification strategies and the desire to offer customers different (or better) services or products than competitors? DiMaggio and Powell (1983) state that despite organizations’ search for diversity, there are a
limited number of organizational models to build from, as “organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful.” (DiMaggio & Powell, 1983, p.152) The three isomorphic pressures presented here can usually be identified to interact, but it is important to note that they have different basic conditions and may therefore generate different outcomes. Institutional pressures have the possibility to drive organizational change, since they can create conflicts as they interact. On the other hand, research has indicated that organizations can actively shape policies and do not passively obey such pressure (Powell, 2013).

4.2.3 Strategic Responses to Institutional Pressures

Despite neoinstitutionalists’ (e.g. DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 2001) extended focus on institutional processes, Oliver (1991) argues the lack of explicit reasoning regarding strategic behaviors employed by organizations as direct responses to such processes. In her work, Oliver (1991) recognizes the critique directed toward the institutional perspective for its problem to acknowledge the role of “organizational self-interests” and “active agency” when it comes to providing explanations for why and how organizations react to institutional pressures. Therefore, she applies several converging views of resource dependence and institutional theory, “to demonstrate how organizational behavior may vary from passive conformity to active resistance in response to institutional pressures, depending on the nature and context of the pressures themselves.” (Oliver, 1991, p.146). Both resource-based and institutional views hold that external pressures restrict organizational choice, that organizational environments are interconnected, and that in order to survive, organizations must respond to expectations and demands that stem from their external environment. This responsiveness for survival is what institutional theory calls isomorphism, and resource-based theory calls adaptation. While isomorphism is a result of the organization’s adherence to rules and norms, adaptation is the result of scarce resource management. Oliver (1991) argues that what we can learn by applying the two views to the matter of organizations’ strategic responses to institutional pressures is that such responses can be both passive and active, depending on what kind of pressures are exerted and the context from which they stem.

The two views also have similar understandings of the motives behind organizational behavior, namely that organizations seek legitimacy and stability, and that organizations are interest-driven. Institutional theory argues that organizational features are stable over time as a result of conformity to rules and expectations expressed by the institutional environment, while resource-based theory holds that organizational stability is achieved by the organization’s active attempt to reduce environmental uncertainty (Oliver, 1991). Scott (2008 in Iarossi et al., 2013, p.78) stresses, however, that the institutional view does not see organizations as passive actors, but as actors with the power to also respond more actively to institutional demands than by conformity to the institutional environment’s expectations and rules. Furthermore, the institutional perspective sees organizations as driven by interests that are socially or institutionally defined, not by political and calculative
interests, as is the case for resource dependence theory (Oliver, 1991). This difference between institutional and resource-based views imply that the institutional view is better suited to discuss organizational responses in relation to external pressures that are socially defined, such as pressures for sustainability on the global market for wine. Oliver (1991) mentions that when it comes to CSR and sound organizational ethics, it is more likely that organizations’ strategic behavior in response to external pressures is driven by institutionalized practices and values, rather than the possibility of resource or prestige gain.

Institutional theory can provide a useful insight to the sources of pressure that influence corporations’ sustainability practices, as it provides a framework for understanding firm responses, which “transform institutional pressures into specific sustainability initiatives” (Iarossi et al., 2013, p.77). Iarossi et al. (2013) argue for the combination of institutional theory and organizational learning theory when it regards how sustainability initiatives are executed. Organizational learning theory can provide a framework for understanding how organizations shape their response to institutional pressures for sustainability, through sustainability initiatives (Iarossi et al. 2013). According to Powell (2013), many organizational theory approaches assume that organizations always purposively progress toward becoming more efficient and adaptive to its environment; that organizations are rational. In contrast, the institutional approach asks questions on a different level, regarding from where and how conceptions of rationality emerge; hence, not taking either of the two assumptions for granted (Powell, 2013). Therefore, the institutional view is better suited for this study. Furthermore, Iarossi et al. (2013) hold that the institutional view can be a framework through which to examine the external drivers that affect organizations’ “pursuit of sustainability”.

4.3 Institutions and CSR

Scholars have identified a lack of theory development in the area of business-driven sustainability initiatives (Grimstad, 2011) and very limited theoretical attention has been paid to the causes of businesses’ voluntary socially responsible actions (Campbell, 2006). van Marrewijk (2003) is one of few scholars who take a largely institutional view of sustainability efforts in organizations and argues that a high ambition level for CS in the company requires a supporting institutional framework. In the background chapter I pointed to the lack of literature that discuss why companies engage in social sustainability efforts specifically. In the area of CSR, however, Campbell (2006; 2007), Galaskiewicz (1991) and Fransen (2013) have used institutional theory to study why firms act in socially responsible ways. Although socially responsible initiatives are not, per se, socially sustainable, it is useful to draw on their findings. As has already been established, the concepts corporate sustainability (CS) and corporate social responsibility (CSR) are closely related and are nowadays often treated to denominate the same meaning (Iarossi et al., 2013; van Marrewijk, 2003).
Galaskiewicz (1991) found that companies are likely to act socially responsible if organizations, such as trade associations, nurture cognitive and normative institutions that support and encourage such actions. Campbell (2007) argues that both economic conditions and institutional factors determine to which level companies engage in socially responsible activities; that the relationship between companies’ socially responsible actions and economic conditions (the level of competition on the market being one of the most important such conditions) is mediated by institutional factors. Campbell’s (2006) work is of specific relevance here, since he uses institutional theory to develop “causal propositions specifying the institutional conditions under which firms are likely to act in socially responsible ways.” (Campbell, 2006 p.925) He concludes that the institutional environment within which corporations operate can have a constraining and enabling effect on social responsible actions. In Campbell’s (2006) reasoning, the importance of regulatory, normative and cognitive institutions is emphasized. He suggests, for example, that firms are more likely to conduct their operations in a socially responsible manner, if: an effective and well-organized industrial self-regulation system is in place, which encourages such behavior; they are members of associations that support socially responsible action; and if firms are engaged in institutionalized dialogue with stakeholders such as employees and community groups. Finally, he underlines that the institutional environment is prone to change as dynamic pressures that often involve power affect it. Pressures exerted by stakeholders will continue to trigger institutional change and thereby also change the inclination for socially responsible behavior among firms (Campbell, 2006).

4.4 Chapter Conclusion

This chapter has discussed institutional theory and its suitability as a theoretical framework through which to provide explanations about what powers and mechanisms have caused the increased focus on sustainability in the Chilean wine export industry to occur. As do all theories, the institutional view has limitations as well as advantages. Therefore, resource dependence and organizational learning theory were considered as possible complementary theories. Both these views offer valid arguments for how to consider drivers behind organizations’ responses to institutional pressures. However, scholars (Iarossi et al., 2013; Oliver, 1991) argue for institutional theory as the best suited theory to provide insight into external environment-pressures that affect organization’ sustainable practices. The review of literature in chapter 3 suggested that a possible competitive advantage gain might act as a driver for companies’ engagement in sustainability initiatives. However, competitive advantage can be considered a complementary driver for why companies adopt sustainable practices, not as an explanation for how and why external institutional pressures affect an industry in its sustainability pursuit. For these reasons, institutional theory holds greater explanatory power than resource dependence theory or organizational learning theory.
This chapter also set out to identify theoretical concepts by which to guide the data analysis. First of all is the concept of institutional pressures, which was conceptualized using DiMaggio and Powell’s (1983) distinction between coercive, normative, and mimetic pressures. I have thereby chosen to conceptualize institutional pressures as external, invisible pressures that stem from the firms’ institutional environment. Moreover, the concept of institutional isomorphism is closely related to the concept of institutional pressures; as such pressures can lead to isomorphism within an organizational field (DiMaggio & Powell, 1983). The process of increased focus on sustainability in the Chilean exporting wine industry can be seen as an isomorphic process, driven by institutional pressures for change. Although isomorphism is an important concept, the purpose of the analysis is not to determine to what extent isomorphic change has occurred in the industry, but rather to identify mechanisms behind that change and how and why they have affected Chilean wine exporters’ sustainability initiatives (see chapter 5).

Furthermore, DiMaggio and Powell (1983) hold that organizations strive for institutional legitimacy in their actions. Hence, in the analysis of the data collected, the external pressures perceived by industry actors can be categorized into coercive, normative, and mimetic pressures. This, in order to understand what type of pressures affect sustainability initiatives in the Chilean wine export industry, how they do so, and most importantly, why. Theoretical conceptualization has thereby altered the RQ to sound: “How and why have external institutional pressures for sustainability affected the Chilean wine export industry’s implementation of sustainability initiatives?” Naturally, providing one or several explanations for the how and why cannot be done only by categorizing the observed institutional pressures. The literature (Campbell, 2007; van Marrewijk, 2003) proposes that the institutional environment can have a both constraining and enabling effect on companies’ socially responsible actions. Furthermore, a critical realist intensive research approach requires the Chilean wine export industry to be studied in its causal context in order to produce causal explanations of the increased focus on sustainability in the industry (Sayer, 2000). Hence, factors in the industry’s environment may play an important role for how and why institutional pressures have affected the development of sustainable practices in the industry. Thereby, cultural, political, economic and competitive factors in the industry’s external environment (and if and how they affect the industry’s implementation of sustainability initiatives) should also be considered.

Concluding, the analytical framework developed here mainly draws on DiMaggio and Powell’s (1983) work of three types of institutional pressures with powers to stimulate institutional isomorphism within an organizational field. Therefore, the key assumptions on which I will base my analysis in chapter 5 are:
• The Chilean exporting wine industry is part of an organizational field constituted by its key suppliers and customers, international competitors, and national and international regulatory agencies. Competition on the global wine market has structured companies into a field, in response to environmental changes and other organizations’ responses to those changes;

• Increased focus on sustainable development in the Chilean wine export industry is a type of isomorphic change that has modified organizations’ characteristics to better fit the altered characteristics of their environment;

• Organizations are interest-driven, however they “compete not just for resources and customers, but for political power and institutional legitimacy, for social as well as economic fitness.” (DiMaggio & Powell, 1983, p. 150). Thereby, the possibility for increased legitimacy is a motivator for organization’s responses to institutional pressures (DiMaggio & Powell, 1983).
5. Presentation and Analytical Discussion of Findings

In this chapter I present the findings from the analysis of the data collected and discuss those findings in relation to the RQ. In order to enable a causal analysis of the increased focus on sustainability in the Chilean wine export industry, relations between objects of study and their importance for the phenomenon at hand are assessed. I also consider the moderating effect of environmental factors for the industry’s development of sustainability initiatives. An assessment of relations between objects can produce an understanding of what relations are important for the phenomenon studied, and which are less so. It is not possible to assess the relation between two objects of study simply by logic; it can only be done through a concrete study (Sayer, 1992; Danermark et al., 2002). Some relations between objects are necessary because without the other, the nature of one object would not be the same. Other relations are contingent (here, contingent does not mean “dependent on”), because both objects could exist without the other. However, even if a relation is necessary it can be of little or no importance for a certain phenomenon. Likewise, a relation that is deemed contingent can be highly significant for the phenomenon at hand (Sayer, 1992). The first part of this chapter is structured according to the actors that were found to affect the Chilean wine export industry’s sustainability practices due to their relation with the industry.

Furthermore, the combination of key theoretical assumptions derived in chapter 4 and a critical realist methodology has led to the following questions for analysis: what external institutional pressures for sustainability are exerted on the Chilean exporting wine industry (with the aim to assert what powers have affected the isomorphic change in the industry); how have those pressures affected the industry’s implementation of sustainability initiatives; and why the institutional pressures exerted on the industry have had this effect (based on Sayer, 2000 and DiMaggio & Powell, 1983).

5.1 Systembolaget and the NAMs

This study has shown that the Chilean industry (especially through WoC) has relations to the Nordic Alcohol Monopolies (NAMs), and particularly to Systembolaget. Systembolaget exerts coercive pressure on the Chilean trade association and its members to comply with the BSCI code of conduct. Parra (2014b) stated: “Systembolaget sent a very strong signal that we need to improve some aspect of our code because they take into account seriously the BSCI code of conduct.” Furthermore, the interviews revealed that Systembolaget (under the NAMs “flag”) exerts pressure on the Chilean exporting wine companies directly, and not only through WoC. All four companies interviewed had experienced a coercive pressure for BSCI compliance put on them by the NAMs, and this pressure was perceived as a mix of force and persuasion for compliance. Company A said: “The Nordic monopoly started asking the whole industry how we were working in social responsibility”. Company C said: “I would say the Nordic countries are requesting a lot more in social aspects. Maybe before they were asking, or they were looking for more environmental things.
But now they are turning a lot to the social aspects of the sustainability. They have developed this BSCI code of conduct and they are sending them to us.

However, Company B did not perceive the pressure from the NAMs as particularly strong: “We have an idea that maybe our customers in Europe and Canada, they ask for sustainability certifications, but in other countries they don’t even ask for that.” The fact that the company did not consider the Nordic countries priamary markets, can be a mediating factor for how it perceives pressures from Systembolaglet and the NAMs. Nevertheless, the interviewee mentioned that certain tenders in some countries (for example at Systembolaglet) are only open for wineries with a sustainability program: “[T]hey ask you to have a sustainability program. We don’t participate because we don’t have a strong program.” According to DiMaggio and Powell (1983), coercive pressures stem from the problem of legitimacy and political influence. In the case of the NAMs, and Systembolaglet particularly, they have a state-led agenda that partly focuses on increasing the sustainability of the monopolies’ supply chains (Systembolaglet, 2010a). Moreover, in order to be legitimate in its claim that it is working towards achieving this goal, Systembolaglet exerts coercive pressure on Chilean suppliers for BSCI compliance, both through the national trade association and in direct contact with wine producers.

It should also be mentioned that the data has revealed that Systembolaglet and the NAMs are not the only international buyers that exert coercive pressure on the Chilean industry. The UK has developed its own code of conduct, not based on the BSCI methodology, which Chilean wine exporters have to comply with (Parra, 2014b). International retailers, like Tesco and Walmart, also apply pressure for sustainability on Chilean wine producers when they request information on company conduct. Company D and Company C, with presence in more than 135 and 90 countries respectively, both expressed this. Company D said: “[E]veryone today is requesting ethical audits, processes, they come here and they interview the workers and so on.”

With regard to the effect Systembolaglet’s demand for BSCI compliance has had for individual wineries’ implementation of sustainability initiatives, all companies interviewed have either been audited and approved by the BSCI, or are working to become so. All four companies have adopted the BSCI code of conduct, either fully or partly due to the demand exerted by Systembolaglet. Company A said: “We signed for the [BSCI] code of conduct for example, we need to sign. We have to sell and in order to sell wines we need to be part of it”. In its sustainability report, Company C stated: “in 2012, we decided to voluntarily adhere to the BSCI Code of Conduct, which was driven by the Scandinavian alcohol monopolies.” Furthermore, the fact that WoC aims to implement the BSCI principles into the National Sustainability Code, is to an extent an effect of the demand for BSCI compliance voiced by Systembolaglet: “[T]he
directors from Systembolaget visited Chile last month and it was an official visit. [Signing the BSCI agreement] was very important for them.” (Parra, 2014b).

According to DiMaggio and Powell (1983), the possibility for increased legitimacy is a motivator for organizations’ responses to institutional pressures. Thereby, the interviewed companies and WoC’s response to the coercive pressure for BSCI compliance exerted by Systembolaget can be seen as a way to gain legitimacy, by acting in accordance with formal (regulatory) requirements. These requirements are funded in cognitive norms for acceptable business behavior and such norms also guide Systembolaget’s decision to increase the sustainability of its supply chain. The findings presented here suggest that the relation between WoC and Systembolaget is substantial for the sustainability development in the Chilean industry. The question, however is if the relation is substantial and necessary or substantial and contingent for this development. Since the nature of neither object is dependent on the other for its existence, the relation between the two is contingent. Nevertheless, the relation is important for the implementation of sustainability initiatives in the Chilean wine export industry (based on Sayer, 1992). Although Systembolaget has pushed for BSCI compliance, the relation between Systembolaget and WoC is not necessary for the creation of the National Sustainability Code: “It’s not exactly that because of Systembolaget we decided to create the code, it was a decision of the Chilean industry. Because what was happening at the same time was that many countries were developing their own sustainability code, mostly with focus on environmental topics.” (Parra, 2014b).

The direct relation between wine export companies in Chile and Systembolaget should also be assessed since the Monopoly has put direct pressure for sustainability standards on companies and have performed audits in the vineyards. If seen as one group of actors, the companies interviewed have a relation to Systembolaget that is substantial for the adoption of the BSCI code of conduct as company code of conduct. However, when asked about what drives the company’s willingness to certify its operations, Company D answered: “[W]e are doing this for [the markets outside] to let them know that we are working on that, but also because we have the conviction that this is the right thing to do.” This was in line with the other interviewees’ answers, too. Hence, the companies engagement in sustainability certification initiatives are not only motivated by coercive pressure exerted by the NAMs. Therefore, the relation between Systembolaget and the companies interviewed is contingent, but of importance for the sustainability development in the industry. Concluding, the relation between the Chilean wine export industry and Systembolaget is substantial and contingent.
5.2 Competitors

As cited above, the decision to develop the National Sustainability Code was affected by the fact that international competitors were in the process of developing their own sustainability codes. Thereby, the relation between the Chilean wine export industry and its international competitors is of significant interest to the sustainable development of the Chilean industry.

Competitors’ sustainability initiatives are perceived as pressures for sustainability performance by the Chilean industry. The pressures exerted can be interpreted as both normative and mimetic drivers of change, and stem from normative rules about acceptable professional behavior and from uncertainties about the future developments in the industry. Furthermore, countries that are perceived as industry leaders in sustainable winemaking (such as NZ and California) are sources of successful modeling behavior for Chilean companies. The fierce competition on the market is a contributing factor, according to Company C that said: “I don’t know if there is a pressure, but the competition makes some kind of pressure in the wineries. [...] I think the world is going there, so we need to go there.” And that “everybody is trying to get more sustainable. I would say it’s a very good competition.”

When asked why the company decided to apply for the WoC Sustainability Code certification, Company D said: “Finally we decided that it was a good code, something that is good to have, and also, in other areas like California, New Zealand, South Africa, they have their own local systems.” And how “The good thing about using these certifications is that you have a third party that [...] say, yes, they are working on sustainability and they deserve this seal.” In other words, one motivator behind the company’s decision to engage in sustainable certification schemes is the potential for legitimacy gain by showing that the company (proactively) lives up to society’s increasing expectations for acceptable sustainable behavior. However, the data showed that mimetic pressure is perceived to stem from national, as well as international competitors. Company B expressed: “At this moment, it is me and other 2 persons, sometimes in a normal week I try to think about certifications problems, the cost, things that we have to correct. But we are trying to follow the example of [Company D].” Company D is the largest exporter of Chilean wine, and has a greater than 29% share of the domestic market (Chile Desarrollo Sustentable, 2013), and that might be a reason for why Company B aims to model Company D’s initiative for sustainability management in the company. Also in this case, legitimacy is a possible motivator, as the company tries to develop its sustainable management based on organizational practices that are viewed as acceptable behavior by other companies. However, another possible motivator for Company B to mimic Company D is the uncertainty about future regulations in the area of social and environmental management of the company and its resources, given the rapidly evolving trends on the international market.
Seen through DiMaggio’s and Powell’s theoretical framework, the normative and mimetic pressures exerted by international competitors are powers that have driven the isomorphic change in the industry (that is, towards more focus on sustainable winemaking). Legitimacy is a motivator for companies in the industry to respond to these pressures and use sustainability certifications in their marketing, and for WoC to model other countries perceived as successful competitors. The data suggests that the creation of WoC’s Sustainability Code was driven by institutional pressures exerted by international competitors’ actions, as perceived by WoC. The creation of national sustainability codes in the global wine industry is a way for organizations to respond to changes in their environment, by altering their characteristics. There is reason to believe that if other national trade associations had not reacted to the changing demand for sustainable winemaking on the global market, the Chilean National Sustainability Code would not have been developed at the time it did (see Parra’s statement in section 5.1). Therefore, the relation between the Chilean wine export industry and its international competitors is important for the development of the WoC Sustainability Code. However, the relation is contingent in the sense that the nature of neither object relies on the other to be what it is (Sayer, 1992). Furthermore, the statements from company interviews above indicate that the decision to apply for sustainability certifications was driven by international competitors’ actions, because organizations are interest-driven social actors. Concluding, the data suggests that international competitors are actors in the organizational field that through their social relation with the Chilean wine export industry have the power to drive certain aspects of the sustainability development in the Chilean export wine industry.

5.3 Chilean Government Bodies
The two previous sections have concluded on relations which have had an enabling effect for the implementation of sustainability initiatives in the Chilean wine export industry, to the extent such conclusions could be drawn. This section focuses on a relation that partly has a constraining effect on that development; namely the wine industry’s relation to Chilean government bodies.

As mentioned in chapter 3, industry voices have called for increased cooperation between the Chilean government and the country’s wine export sector, and WoC’s technical consortium has called for the involvement of local authorities, suppliers, and the Government, in order to legitimize the development of sustainable practices in the wine industry ((Visser, 2004; WoC, 2010; El Mercurio, 2013). When the companies interviewed were asked about whether they experience any sustainability pressure from the Chilean government, all companies answered that they did not. Company D said: “I don’t think that there is a pressure from the government level, no.” Company A even expressed a lack of support from the Government in relation to environmental sustainability initiatives when the representative said: “you know here it’s really hard to recycle, so we have been working on that looking for [someone] that can come here and take the clean trash and recycle them, and there’s no help on that.” The interviewee also talked about
how there is no direct sustainability pressure on grape suppliers from the government level, and how this makes it hard for wineries to demand that suppliers comply with the BSCI code of conduct principles: “for example if you have a supplier, a grape producer, they have an excellent quality fruit that you don’t want to lose, but they are not willing to follow the sustainable rules or [CSR] rules, we’re gonna lose that grape and we’re gonna lose quality on the wine.” Company D explained: “We’re one of the most advanced industries in sustainability, so I would say that the government uses us as a good example.”

Although it was not mentioned during the interviews, both Company A and C’s Sustainability Reports stated that the company’s supplier development program had been funded partly by CORFO (the economic development agency in Chile), and that the companies had made use of a tax deduction program for worker training. This is a form of coercive force exerted by the Government for social and environmental sustainability, although it is perceived by companies as more of an invite than a pressure for compliance. Furthermore, Chile has laws and regulations in place that govern the environmental, social and economic behavior that is in line with regulatory norms (Parra, 2014b). Since the nature of the industry is dependent on the Government for its existence (the Government technically has regulatory power to pressure the industry into stopping its export activity), but the Government’s existence is not dependent on the wine export industry being what it is, the relation between the two is asymmetrically necessary (Danermark et al., 2002). However, the data suggests that the Government to a certain extent is perceived as constraining companies in their voluntary sustainability development since it does not promote the legitimacy of such actions. Nevertheless, it is not possible here to draw conclusions about how a coercive pressure exerted by the Government, such as increased legislation, would affect the industry’s development of sustainable practices. Hence, how important the relation between the government bodies and the wine export industry is for the implementation of sustainability initiatives cannot be concluded on. Nonetheless, the findings imply that the social relation between the Chilean wine export industry and the Chilean Government, being asymmetrically necessary, may have liabilities (based on Sayer, 1992) that, to a certain extent, constrain the industry’s sustainability pursuit.

5.4 Why Have the Pressures Had This Effect?

The following institutional pressures for sustainability were identified to have had an important effect on (at least one aspect) of the implementation of sustainability initiatives in the Chilean wine export industry: coercive pressures exerted by Systembolaget; and normative and mimetic pressures exerted by international competitors. These pressures have the power to drive change in the industry, and can therefore be seen as mechanisms behind the increased focus on sustainable development; the isomorphic change that has occurred. What remains to be concluded, however, is how these mechanisms interact and what relevant
contextual factors have mediated these mechanisms’ ability to drive the sustainability development in the industry – Why have the pressures had the effects found above?

The findings show that competition in the global wine industry is an important external factor for the implementation of sustainability initiatives in the Chilean industry. WoC has set out to make the Chilean wine industry the number one New World producer of sustainable wine by 2020. The main objective to meet, however, is to increase the value of the Chilean wine sold (Wines of Chile, 2010). Sustainability branding is seen as a way to achieve this. In my interview with Parra at WoC, he said:

“The main idea is to try to sell that Chilean wine is sustainable wine [...] And that’s why, if you link that idea with the strategy of 2020 it’s clear that it’s part of the value of the sector. And also, you can probably say that’s one of the reasons we created the code.”

Hence, one reason why the industry has focused its efforts in the area of sustainability is the belief that this is one way to strategically position Chilean wine on the competitive global market and achieve a competitive advantage through sustainability branding. The moderate level of competitive rivalry on the global market (Marketline, 2013) motivates export-committed wine producers to promote sustainability as a way to upgrade their competitive advantage (Sinha & Akoorie, 2010). Moreover, the companies interviewed here have a widespread global presence, as do WoC through ProChile, and this can encourage mimetic behavior, as the industry perceives and responds to pressures from competitors in many markets.

As I assume that organizations are interest-driven, I do not reject the fact that the potential for economic gain can be a motivating factor for the Chilean industry’s behavior. However, as organizations also compete for institutional legitimacy and political power, the explanation of why the actual process of increased focus on sustainability initiatives in the industry has happened is related to the mechanisms that drive that change; the institutional pressures that enable the process to occur. I see the moderate but increasing competitive rivalry as important for the Chilean wine export industry’s implementation of sustainable practices, as it is a factor that interacts with the normative and mimetic pressures exerted by competitors. However, the level of competition on the market also partly explains why the industry has adopted the BSCI code of conduct to the extent that it has. In their strive for legitimacy and market presence, the companies adopt sustainable practices in line with regulatory norms and standards on the Nordic market to not lose market shares. Thereby, competitive rivalry on the global market also interacts with coercive pressures for compliance with sustainability standards.
Another factor identified through the data analysis is the cultural-cognitive norms that guide acceptable business practice in Chile. There was a consensus among the wineries interviewed regarding the non-existent demand from Chilean wine consumers for sustainability. Company B explained how a concern for sustainability is not seen as cultural-cognitive legitimate business behavior: “Everyone is attacking environmental people, they say they are trying to ruin every project. So as a country, we see the people who take care of the environment as a spoiler of business. We don’t have, inside our concept of business, sustainability, no one.” Regarding the difficulty to recycle waste from the wine production process, Company A stated: “I think what the problem is that we have lack of technical advisers in terms of sustainability, also in biodiversity. No one knows. The government doesn’t have the tools to give us the opportunity to recycling.”

Previously, the relation between the wine industry and government bodies could no be asserted as either important or not important for the implementation of sustainability initiatives in the industry. However, the lack of pressure from government bodies perceived by industry actors could be founded on cultural-cognitive norms that do not legitimize sustainability initiatives as acceptable business behavior, which in turn may have a constraining effect on the isomorphic process in the industry. The fact that the industry has a shortage of technical advisors to guide the development of sustainable practices also imply that the cognitive base framed by universities does not (yet) prioritize social and environmental activities.

According to Parra at WoC, the economic cost entailed in the implementation of the WoC Sustainability Code may affect companies’ decision to apply for the certification. He said:

“[…] it’s more with the economic decision to have or not have this certification, because there are some wineries that have a very good performance in sustainability and the only reason to not be part of our system is because of money, or the lack of official requirement, or the lack of international requirement from markets. It’s just that!”

Company B said: “[…] you cannot reflect the value and the money you invest in [the certification] in the price you are asking for the wine. A customer doesn’t pay more if you have the sustainability code. And you as a wine producer you don’t have any effect on your sales, right now, if you have the code or not.”

Neither Company A nor Company B had at the time of the interviews applied to join the WoC Code and they both talked about the economic cost related to sustainable practices as a constrain for doing so. Company C and D had both become certified with the WoC Code and both already had invested a lot of resources in sustainability development of the company prior to the implementation of the Code. Company C said: “For the small wineries I think it would be more difficult than for us, it was very easy. We had everything implemented so it wasn’t difficult.” The data implies that pressures (or lack of such) from international
markets, the lack of regulatory requirements for sustainability certifications, and firm-level factors such as previous investments in sustainable practices and the company’s financial performance, all affect wineries’ decision to apply for certifications. The recent economic crisis and the effect it had for Chilean wine sales on markets in Europe and the US, the exchange rate dependency of Chilean exporters, and the Chilean wine industry’s problem of a comparatively low profitability were mentioned in chapter 3 as relevant contextual factors. Given the analysis of the data, the economic cost related to the implementation of sustainable practices and macro-level economic factors in combination are important for the implementation of sustainability initiatives in the Chilean wine export industry. I conclude that to a certain extent, these factors have mediated the aggregate effect that institutional pressures for sustainability have had on the industry’s sustainable practices. Hence, the following factors were found to be of importance for the implementation of sustainability initiatives in the Chilean wine export industry: the level of competition on the global market; cultural-cognitive norms that guide business practices in Chile; and the economic cost related to the implementation of sustainable practices in combination with macro-level economic factors.

5.5 Discussion of the RQ and Theoretical and Methodological Evaluation

Based on the data analysis I concluded that institutional pressures have the ability to drive and constrain the implementation of sustainable practices in the Chilean wine export industry, as they interact with each other and with factors in the industry’s environment. The increased focus on sustainability in the industry as a phenomenon is explained by the interaction between coercive, normative and mimetic pressures and mediating external factors. Nevertheless, as these pressures have different basic conditions, they have generated different outcomes (DiMaggio & Powell, 1983). Both contingent and necessary relations between the Chilean wine export industry and social actors in its institutional environment contribute to these effects. Below I provide answers to the RQ: “How and why have external institutional pressures for sustainability affected the Chilean exporting wine industry’s implementation of sustainability initiatives?” Furthermore, evaluations of the theoretical and methodological framework used follow.

Firstly, the adoption of the BSCI principles in the companies interviewed, and the decision to implement the BSCI code of conduct into the National Sustainability Code, was affected by Systembolaget’s coercive pressure exerted on the Chilean industry. The analysis showed that this effect can be explained by several factors. As industry actors strive for social and economic fitness, they respond to the coercive pressures exerted for compliance with the BSCI code of conduct. If they choose to disregard the pressure for BSCI compliance, companies are not able to sell products to the affected Nordic markets and would risk losing both legitimacy and revenue. Competitive rivalry on the global market mediates the pressure exerted by Systembolaget and contributes to the adoption of the BSCI code of conduct in the Chilean industry; which is one type of sustainability initiative. Furthermore, in its role as a trade association that promotes sustainable
development in the wine industry, WoC fosters cognitive and normative support for sustainable business practices. This can encourage companies in the industry to act socially responsible, according to Galaskiewicz (1991). Campbell (2006) also suggests that as members of an association that encourages socially responsible behavior, companies are more likely to act in a socially responsible manner, and this could be one contributing cause for why the industry increasingly adopts sustainability initiatives.

Secondly, the development of the National Sustainability Code was primarily an effect of normative and mimetic pressures perceived by the industry and exerted by international competitors. The decision of the companies that had applied for sustainability certification with the Sustainability Code to do so was also a response to such pressures. Company A and B had experienced constraints to engage in the Sustainability Code due to the economic cost related to the audit process and the implementation of required sustainable practices, while Company C and D did not express this. Why normative and mimetic pressures for sustainability seem to have both enabling and constraining effects for the adoption of sustainability initiatives seems to relate to firm-level factors such as previous investments in sustainable practices, international presence, and the financial state of the company. This is supported by Delmas and Toffel (2004), that have concluded that managers in different companies perceive the same level of institutional pressures differently due to differences in the companies’ “organizational structure, strategic position, and financial and environmental performance” (Delmas & Toffel, 2004, p.120).

Furthermore, I concluded that the competition on the international market for wine was a factor that, together with normative and mimetic pressures for change, explained the development of the National Sustainability Code. However, competition on the international market is not a factor in the industry’s institutional environment, but a mediating external economic condition. The finding is partly supported by Campbell (2007) and van Marrewijk (2003) that argue how both economic conditions and institutional factors affect companies’ socially responsible actions.

Thirdly, the lack of coercive pressure for sustainability exerted by the Government enforces the cultural-cognitive norms in the Chilean society that do not legitimize sustainable business behavior. Since organizations strive to be legitimate in their actions, government bodies’ shortcomings to legitimize the sustainability development in the wine industry constrain the industry’s implementation of sustainable practices. Companies engage in CS to gain legitimacy in their organizational field, as pointed out by Iarossi et al. (2013). However, as pressures from Systembolaget, other international trade partners and competitors all interact to have an enabling effect on the industry’s adoption of sustainability initiatives, these pressures might in the long-term contribute to a change in cultural-cognitive norms.
Finally, it seems as though external institutional pressures and mediating external factors cannot fully provide a causal explanation for why the Chilean wine industry has increasingly engaged in the implementation of sustainability initiatives. The data suggested that company values and norms also are important drivers for this development. All four company representatives mentioned how they work with sustainability because “it is the right thing to do” (Company D), and “It’s the way we want to work. We want to work always taking in mind the environment and our workers too, and our suppliers.” (Company C). Parra at WoC said that the decision to create the Sustainability Code was also influenced by “the decision from the industry to be more sustainable.” This finding is in line with what scholars (Sinha & Akoorie, 2010; Iarossi et al., 2013) have indicated about the importance of management-level values for the adoption of sustainable initiatives in companies. The next two sections are evaluations of my application of the theoretical framework and methodology used to answer the RQ.

5.5.1 Theoretical Reflections and Implications

This section reflects on my usage of DiMaggio and Powell’s (1983) theoretical framework for how institutional pressures can drive isomorphic change in an organizational field. It was the theoretical framework through which I analyzed the empirical data collected and produced explanations to the RQ. The theoretical concept of institutional pressures was deemed well suited for this study since it can provide insight about phenomena like the one under study, and can also provide sufficient explanatory power. DiMaggio and Powell’s framework can interpret and explain the powers that drive and constrain isomorphic processes in organizational fields, since it builds on notions about generative mechanisms; of regulatory, normative and cognitive institutions. In my analysis of the data, I used the theoretical framework to understand what types of pressures had affected the Chilean wine export industry’s decision to implement sustainability practices.

The scope of my analysis was limited to the understanding of how and why external institutional pressures for sustainability had affected the Chilean wine export industry. However, DiMaggio’s and Powell’s theoretical framework does not limit a theoretical analysis to external pressures, but also includes organization-internal factors, such as if ambivalent goals, or an understanding of dependency on other organizations, affect the organization’s response to pressures exerted by the organization’s environment. My findings suggest that company-internal values and norms have an affect on the Chilean wine export industry’s sustainability pursuit. Hence, by extending my use of DiMaggio and Powell’s framework of institutional processes to also include internal institutional pressures, an enhanced causal explanation of the phenomenon at hand could be produced.

Moreover, the findings presented above also suggest that economic conditions in the industry’s environment can have a mediating effect on the industry’s implementation of sustainable practices. DiMaggio and Powell
(1983) argue that organizations compete for resources and customers as well as for social and economic fitness, and this implies that they do not only respond to pressures exerted by actors in their institutional environment. Although the concept of institutional pressures focus on pressures that stem from an organization’s institutional environment, the theoretical framework is broader than the concept and also incorporates the notion that organizations can respond to pressures exerted by actors within the organizational field, external to their institutional environment. However, here the concept of competitive isomorphism might be better suited than the concept of institutional isomorphism in order to explain why economic conditions have had an effect on the Chilean wine export industry’s development of sustainable practices. I recommend future researchers in the field to try to understand and explain how and why company-internal values and norms affect the implementation of sustainability initiatives in the wine industry. Furthermore, relevant economic conditions in the wine industry’s environment and how they affect the wine industry’s implementation of sustainability initiatives should also be understood and explained.

5.5.2 Methodological Reflections and Implications

This thesis’ RQ was answered through a case study method, with an intensive research design with extensive traits, based on the critical realist philosophy of the social sciences. The dynamic approach between empirical data and theoretical analysis was inspired by Danermark et al.’s (2002) ‘explanatory model of critical realism’. “Reconceptualization” through abstraction was an important element of the research, which led to the decision to apply DiMaggio and Powell’s theoretical framework to the analysis. This exemplifies the independence between theory and empirical data in the critical realist study. With a RQ that sought to understand how external pressures have affected the Chilean wine export industry’s sustainability pursuit, and also why they have done so, a critical realist methodology and case study method provided the thesis with the needed structure to answer that. However, I do realize that my final causal explanations of the phenomenon studied have certain flaws. For example, a more intensive (and more time-consuming) approach to the investigation of the Chilean institutional environment, and the norms and rules it incorporates, could have strengthened the causal analysis and yielded explanations with greater explanatory power. This, since knowledge is based on socially determined conceptual constructions (Danermark et al., 2002), and is therefore dependent on context.

In chapter 2, I mentioned the critical realist evaluation of the “truth” that research has produced and how well it generates expectations about the world; the practical adequacy of knowledge. I do not disregard the fact that this study was conducted mostly based on empirical information about institutional pressures perceived by large companies in the Chilean wine export industry. Had the same analysis been conducted based on data from SMEs in the industry, the perceived pressures and importance of economic conditions on the international market might have provided different explanations for why the increased focus on sustainability initiatives has occurred. Nevertheless, I conclude that firm-level factors are central for the implementation of
sustainability initiatives and the truth produced does therefore not disregard the importance of firm-characteristics. Hence, the features of the companies interviewed affect the practical adequacy of the conclusions made. Still, the conclusions have allowed for diverging company characteristics and can be seen as practically adequate. Moreover, I do not claim that my findings about how the pressures identified have affected the interviewed companies’ implementation of sustainability practices are generalizable to all companies in the Chilean wine export industry, due to the subjective character of perceptions.

However, since the outcome of my research allows for diverging contextual factors, the knowledge produced can be said to generate expectations about the reality outside the Chilean wine export industry. The powers identified as drivers or constraints for the implementation of sustainability initiatives generate expectations of the reality in other wine industries that experience the same sustainability development as the Chilean wine industry. In this sense, the findings have contributed to a greater understanding of factors in the external environment that may have an effect on the wine industry’s implementation of sustainability initiatives. Furthermore, the global wine industry is an ever-evolving organizational field, where pressures for sustainability and companies’ responses to such pressures constantly change and therefore the findings are not “constant” and do not imply that another study conducted in the future would come to the same conclusions through causal analysis. Nevertheless, the findings can be practically adequate “for now”. I believe that policy makers and wine industry actors in Chile should know how and why the country’s wine export industry has been affected by pressures in its external environment, in order to enable and strengthen the industry’s pursuit to become the number one New World exporter of sustainable wine in the future.
6. Conclusion

The aim of this study was to explain how and why the increased focus on sustainability in the Chilean wine export industry has occurred. As a critical realist methodology guided the thesis, a causal analysis was conducted, in order to provide causal explanations for the above-mentioned phenomenon. The analysis was guided by DiMaggio and Powell’s (1983) institutional theory assumptions about organizations’ pursuit for legitimacy in their responses to institutional pressures and how this can lead to isomorphic processes in the organizational field. My findings suggest that the increased focus on sustainability in the industry can partly be explained by the interaction between coercive, normative and mimetic pressures for change, that stem from regulatory, normative and cultural-cognitive norms and rules in the industry’s institutional environment. Certain factors in the industry’s external environment were found to mediate companies’ and the trade association’s responses to institutional pressures.

Through its substantial relation to the Chilean wine export industry, Systembolaget was able to exert significant coercive pressure for BSCI compliance. The industry responded to this pressure by incorporating the BSCI code of conduct into its National Sustainability Code, and into the export companies’ own codes of conduct. The level of competition on the global wine market was a mediating factor for the industry’s response to Systembolaget’s pressure for compliance. Furthermore, the relation between the Chilean industry and its international competitors was deemed important for the development of the National Sustainability Code. This was primarily an effect of mimetic and normative pressures for change perceived by Chilean industry actors, in combination with firm-level factors such as previous investments in sustainable practices, international presence, and company financial soundness.

Moreover, the findings imply that the relation between Chilean government bodies and the wine export industry may pose certain constraints for the implementation of sustainability initiatives. This, since a lack of coercive pressure for sustainability exerted by the Government can enforce cultural-cognitive norms in the Chilean society, which do not legitimize the implementation of sustainability initiatives as acceptable business behavior. Thereby, it was explained how institutional pressures can act as underlying causal powers and liabilities for the isomorphic process of increased sustainability focus in the Chilean wine export industry, depending on their interaction with contextual factors. This is founded on Sayer’s (2000) notion that since the social world consists of “open systems”, conditions that form the surrounding context may affect how events are shaped and produced by causal powers.

How underlying mechanisms in the Chilean wine industry’s external environment have affected the industry’s sustainability pursuit is interesting also for actors in the global wine industry. The specific effects of institutional pressures for the implementation of sustainability initiatives in the Chilean wine export
industry are not generalizable to other wine industries, as other industries are part of different cultural-cognitive, normative and regulatory systems. Nevertheless, the pressures identified to have an enabling or constraining effect for the implementation of sustainability initiatives in interaction with each other and external factors, show what change mechanisms are relevant for the implementation of sustainability initiatives in the wine industry. I suggest that future research, with the aim to provide causal explanations for why wine industry actors engage in sustainability initiatives, build on the these findings and aim to understand and explain 1) how company-internal values and norms can be sources of institutional pressures for sustainability and why they affect the implementation of sustainability initiatives in the industry; and 2) how and why relevant economic conditions in the wine industry’s environment can have a mediating effect on the industry’s implementation of sustainable practices.

Concluding, it is relevant to point to the lack of a common definition of what “being sustainable” means to the cited industry actors. This is not a specific “problem” found in the Chilean wine export industry, but one prevalent in the wine industry globally, according to Szolnoki (2013). Actors in the global wine industry seem to agree on what types of management initiatives are sustainability initiatives; that is initiatives meant to improve the environmental, social, and economic performance on a firm- and industry-level. However, in order to improve the sustainability performance of the wine industry, not just in Chile, but globally, a commonly accepted definition of what encompassing sustainability requires of actors in the industry should be agreed on. Then, companies, regulators, and trade associations can engage in regional-based activities and actions in order to enhance the legitimacy of sustainable actions where needed.
Bibliography


Bunster, F., 2013. Interview with Felipe Bunster, Legal Advisor, Viña Undurraga. Talagante, Chile. 9 December 2013. See Appendix 2.


Zwanger, A., 2013. Interview with Andrea Zwanger, Head of Sustainable Development, the VSPT Wine Group. Santiago, Chile. 9 December 2013. See Appendix 2.