Chapter 25
Innovation Scope and the Performance of the Firm:
Empirical Evidence from an Italian Wine Cluster

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ABSTRACT

Innovation is a key factor for surviving and competing in the global scenario. However, findings from existing studies provide conflicting evidence in this regard, and the relationship between company innovation and performance remains undetermined. This chapter aims to deepen our understanding of this subject by looking at a less studied topic: the relationship between the innovation scope of a firm and its performance. The study is based on empirical research carried out in a sample of 74 firms belonging to the Friuli Wine Cluster located in northeastern Italy. Empirical results support the view that the most successful winemakers are those who have a wider innovation scope and who, in the last years, have considerably revised their innovation-related processes in a more market- and experience-related way.

INTRODUCTION

Innovation is undoubtedly one of the most studied topics in management. From Schumpeter's (1942) pioneering contributions onwards, innovation has been tackled as a multifaceted concept with meaning extending well beyond the narrow boundaries of technological innovation. The Oslo Manual (OECD, 2005: 46) shares the same vision and defines innovation as "the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations".

Despite significant research, the relationship between innovation and performance remains an open issue. Findings from field research conducted at both the firm and the regional level

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suggest a need for further investigations (e.g., Garcia & Calantone, 2001). The majority of studies carried out at the firm level are grounded in the resource-based theory of the firm. They are mainly interested in finding meaningful correlations between performance and the possession of innovation-related resources, such as investments in R&D activities or innovation-related capabilities, such as the degree of innovativeness of the firm (Barney, 1991; Amit & Schoemaker, 1993; Hamel & Prahalad, 1994). One one hand, some of those studies highlight a positive effect exerted by innovation-dedicated resources and capabilities on performances (e.g., Hall & Mairesse, 1995; Adams & Jaffe, 1996; Chesbrough, 2007). However, other studies highlight that investing in innovation could be a *necessary but non-sufficient condition* to get better results at the economic and competitive level (Kafouros et al., 2008; Rosenbusch et al., 2011; Lazzeri & Piccaluga, 2011).

Fewer studies that explore the innovation construct examine the various sides that comprise the innovation activity and connect them to the performance of the firm (Sawhney et al., 2006). However, studies carried out at the regional level are mainly focused on the so-called "agglomeration effect" and its impact on firms. The agglomeration effect is supposed to be positive for clusters according to the Marshallian view and the extant literature on Regional and National Innovation Systems (Cook et al., 2007; Camagni & Cappello, 1997). However, the validity and consistency of the agglomeration-effect have been heavily discussed in recent literature (Malmberg & Power, 2005; Grandinetti & De Marchi, 2014). Within this puzzled framework, this chapter aims to deepen our understanding of this relationship in a particular sector— the wine sector. The results of our study refer to a homogeneous territorial area that is known as the Friuli Wine Cluster (Venier, 2013). The cluster takes its name from the Friuli Venezia Giulia region which is located in the northeast of Italy. Hence, despite being based on primary data direct from firms, our research put together two levels of analysis: the firm level and the cluster level.

Empirical results support the view that the most successful wine makers are those who considerably revised their innovation-related processes in a more market and experience-related way in recent years. Furthermore, despite being more open to foreign markets, the most successful companies are also the ones that have more intimate relationships with other firms and public and private institutions inside the cluster.

BACKGROUND: INNOVATION AND PERFORMANCE IN THE WINE INDUSTRY

The Evolution of the Wine Industry

The wine industry has been completely turned around in the last three decades. From a low added value primary sector product, wine has become one of the most important items in the agriculture budget of many countries and regions. This is the result of a cultural and technological revolution that redefined wine as a product as well as its market (Zampi, 2003).

The modern approach to wine production really developed in the 1980s (Filiputti, 1997), and it gave birth to a revolution that radically redefined the concept of wine, replacing the millenary concept of "wine as food," (i.e., a source of calories during the day and of euphoria in the evening), with the modern idea of "wine as discovery," i.e., a source of emotion, delight, and learning.

According to Heijbroek (2003), we can distinguish between two main market segments using price criteria: basic wines are those wines whose retail price is below the US$5.00/liter threshold and premium wines which remain above US$5.00/liter. Basic wines essentially compete with water, beer, and soft drinks for everyday consumption.

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