

INTAS Research Project on Agri-food Industry Restructuring in Ukraine and Moldova (AFIRUM)



Applying the clinical inquiry approach to understand and facilitate enterprise restructuring in transitional economies: a case study from the Moldovan wine industry

**Working Paper No.7
November 2004**

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Applying the clinical inquiry approach to understand and facilitate enterprise restructuring in transitional economies: a case study from the Moldovan wine industry

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Abstract

Enterprises in the Former Soviet Union (FSU) have had to fundamentally reform how they are managed and operate to cope with the switch from central planning to a more market based economy. In understanding these challenges and how firms are reacting to them, the clinical inquiry approach, a variant of action research, is deemed particular appropriate. Research following this approach was conducted with a case study enterprise drawn from the Moldovan wine industry. The process encouraged self-diagnosis and intervention and a PSEFI (Problems, Strategies, Evaluations and Future Issues) matrix was drawn to guide and assess the company's evolution. Reflections on the benefits of the clinical inquiry approach in transitional economies, compared to more conventional business support and research methods are discussed.

Key Words

Clinical Inquiry, Transitional Economies, Wine, Moldova

Acknowledgement

This research was funded as part of an INTAS research project considering agri-food industry restructuring in Ukraine and Moldova (INTAS99-00753).

1. Introduction

The transition from central planning to a more market based economy has presented a formidable challenge for enterprises in the Former Soviet Union (FSU). Enterprises have had to adapt to a radically different working environment, which has in most cases necessitated fundamental reforms to how they are managed and operate (Peng and Heath, 1996). While this challenge has been documented through recourse to macroeconomic and some primary survey data, comparatively little in-depth, longitudinal enterprise level research has been conducted (Meyer, 2001). This has meant that the complexities of transition and the strategic problems and opportunities facing firms have only partially been recorded, so that, overall, there is little systematic analysis of enterprise level restructuring in the FSU (Schwartz, 2003).

This paper analyses the difficulties of transition confronted by one case study enterprise, a winery in Moldova, and evaluates its strategies to deal with these challenges, drawing on the clinical inquiry approach pioneered by Schein (1987) and adopted by Coghlan (2002). The clinical inquiry approach, a variant of action research (McDonagh and Coghlan, 2001), is deemed particularly appropriate for understanding and facilitating organisational change in transitional economies. The research involved both Moldovan and British researchers, was conducted over three years and draws on extensive primary data.

The case study enterprise is part of an industry, grape and wine production, that is of strategic importance to Moldova as it is one of the few value added sectors for which the country has a significant trade surplus. While its output is small compared to the world's leading wine producers, Moldova has been officially recognised as the

poorest country in Europe (World Bank, 2002), characterised by an overwhelmingly rural and impoverished population, significant out-migration and a weak state (Orlova and Ronnås, 1999). In 2002, Food, Beverages and Tobacco (FBT) production accounted for 55.9 per cent of the value of total industrial production and wine accounted for 23.6 per cent of the total value of FBT output (*Ministerul Economiei și Reformelor*, 2003). If Moldova is to improve its fortunes, it has to improve its export performance particularly in those sectors for which it possesses a potential competitive advantage (EC, 2001), such as wine.

This paper is divided into five sections. The next Section introduces the challenges faced by enterprises in the Moldovan FBT sector, paying particular attention to wineries. This provides contextual information on the operating environment faced by the case study enterprise and the application of the clinical inquiry method. Section 3 introduces the principles of clinical inquiry and the case study enterprise. Interaction between researchers and the company sought to promote self-diagnosis and intervention by the latter and this is discussed in Section 4. Reflections on the process are drawn in Section 5.

2. Challenges of transition in Moldova with attention to the wine industry

As part of the USSR, the Moldovan economy was centrally planned. Under this system enterprises were ‘labour collectives’ to which the state controlled the supply of inputs, prices, production targets and the destination of output. As production targets and incentives were set by the state through the negotiation of annual and five year plans, the health of an enterprise depended more on the bureaucratic connections of enterprise managers than customer satisfaction. As such, enterprises were not market oriented and the quality of output was often, but not universally, erratic or poor

(Zaslavskaya, 1984). With the demise of central planning, enterprises had to adjust themselves to a radically different business environment and this has posed a number of key challenges. Five key challenges can be discerned for the Moldovan FBT sector, paying particular attention to the wine industry.

a) Market liberalisation. In the mid- and late-1990s most FBT plants in Moldova were privatised, principally to insiders (former directors). The privatisation of the FBT sector was particularly sensitive in Moldova given the national importance of the sector: in 2002 agriculture and the food processing industry collectively accounted for 37.2 per cent of Moldova's Gross Domestic Product (GDP) (*Departamentul Statistică și Sociologie*, 2003). It was thus recognised that the country's prosperity is tied significantly to the performance of this sector (Gorton and White, 2003). With privatisation, FBT enterprises gained much greater freedom in production and pricing decisions but lost state guarantees of credit and enforcement of contracts.

By 2001, it was estimated that there were 168 wineries in Moldova (Bogasieru, 2001). Of this total, around 70 companies had bottling facilities and of this number 20 were engaged purely in bottling. This implies that the majority of companies (98) were producing only bulk wines, capturing little added value.

b) Macroeconomic contraction. Moldova's economy collapsed dramatically in the 1990s and local purchasing power shrunk: between 1990 and 2000 GDP contracted three-fold (*Ministerul Economiei și Reformelor*, 2003). The collapse of the economy led to significant out-migration – the European Commission (EC, 2001) has estimated that approximately 800,000 people have left the country since 1991 and

transfers from Moldovan nationals abroad accounted for 16.2 per cent of GDP in 2002 (*Ministerul Economiei și Reformelor*, 2003). While GDP has grown since 2000, in 2002 it still stood at only US\$447.8 per capita - a clear indicator of low average purchasing power (*Ministerul Economiei și Reformelor*, 2003). Moldova's access to Russia, its most important export market, worsened after independence and demand from other FSU countries also fell in the 1990s. Moldova has generally been viewed as a risky market and has attracted very little foreign direct investment. In other words, FBT enterprises have had to restructure amidst a dramatically worsening macroeconomic environment.

The wine sector has not been immune from Moldova's macroeconomic problems. Wine production peaked in the early 1980s when Moldova regularly harvested 1.5 million tonnes of grapes per annum. Following Gorbachev's anti-alcohol campaigns and adverse weather conditions, production fell steadily in the late 1980s and this downward trend continued during the 1990s as both domestic and foreign demand collapsed (Table 1). While some improvement has been registered since 1999, production is still only about one-third of the level reached in the early 1980s.

TABLE 1 ABOUT HERE

c) Independence and International Trade. As part of the USSR, Moldova's wine industry was geared to supply other Soviet republics, particularly Russia. Following the break-up of the Soviet Union and Moldovan independence, producers have less favourable access to their traditional markets, putting pressure on wineries and other

FBT enterprises to find alternative markets and new customers. Trade reorientation has, however, been modest as exports to Western Europe have been limited due to an inability to meet food safety and hygiene standards, lack of marketing experience and high tariff and other trade barriers (EC, 2001). This lack of adequate trade reorientation has been particularly painful given the very limited size and purchasing power of the domestic market.

Evidence of the lack of trade reorientation in the wine industry is detailed in Table 2. Russia still accounts for approximately three-quarters of exports. While the latter figure is less than in the early 1990s, non-FSU countries continue to account for less than 10 per cent of export volumes. Moldova's presence in Western European wine markets is minimal. To give one indicator of this lack of presence, a leading UK wine critic recently admitted that he had never previously sampled wine from Moldova but after trying a 2003 Sauvignon Blanc from the country he wished 'to try more wines from this fledgling republic before I am very much older' (Gluck, 2004). Bogasieru (2001) comments that sales of Moldovan wines in Western Europe are largely to former Soviet émigrés who act as small-scale importers to expatriate communities.

TABLE 2 ABOUT HERE

d). Reform of Supply Chain Linkages. As FBT processing enterprises were privatised, Moldova also embarked on a radical land reform programme that dismantled collective and state farms and distributed their land and physical assets to members. This process promoted the fragmentation of land ownership and created

difficulties for wineries. Rather than dealing with a small number of large collective farms, they now have to source grapes from a supply base comprised largely of small-scale individual farms. This has increased transaction costs and the uncertainty of supply (Gorton, 2001).

e) Changing consumer purchasing power. In 2002, the average nominal wage per month in Moldova was estimated to be just €60, using contemporary exchange rates, and expenditure on food and beverages accounted for around 60 per cent of average disposable income (*Departamentul Statistică și Sociologie*, 2002). Given this low level of purchasing power the majority of consumers are extremely price oriented with limited options for value added goods. While recent years have witnessed some economic growth in Moldova, improving standards of living have been largely restricted to a small segment of the population. As such Moldova does not have a well-developed middle class. These characteristics imply that there is only an ‘insignificant number of high-end consumers who buy expensive quality wines’, with the remainder of the domestic market being ‘low-income consumers who buy cheap wine’ (Bogasieru, 2001).

As these points illustrate, Moldovan enterprises face a very difficult operating environment and survival has called for radical realignment. However while macroeconomic difficulties have been documented previously (Orlova and Ronnås, 1999), little has been recorded on how enterprises have attempted to adapt and deal with the complexity of problems faced. In dealing with this deficiency and in aiding enterprise recovery, the clinical inquiry approach is advocated in the next Section.

3. Methodology

The clinical inquiry approach is concerned with ‘the observation, elicitation and reporting of data which are available when the researcher is engaged by an organisation to help understand and manage change or solve some perceived problem’ (McDonagh and Coghlan, 2001: p.376). This approach was developed by Schein (1987) as a means for improved inquiry and intervention. Practitioners of the methodology embrace two concurrent roles – that of researcher and process consultant. As process consultants, clinical researchers attempt ‘to release the client’s own resources through self-diagnosis and self-interventions’ (Gummesson, 1991: p.32). By taking on this role they also enable the generation of valuable knowledge on ‘what really goes on’ in organizations (Schein, 2001). As such, clinical inquiry involves far greater interaction between researchers and organisations than more traditional qualitative and quantitative methods. By working at the behest of a particular organisation on matters of genuine concern to them, far richer insights can be generated.

Clinical inquiry differs from other forms of action research in two main regards. First, clinical inquiry attempts to be client driven and ‘involves the researcher in the client’s issues rather than involving the client in the researcher’s issues’ (Schein, 1995, p.15). In other words, the process is defined by the organisation’s needs and problems whereas the focus of much action research is framed by the researcher. Second, clinical inquiry is based on the notion of systemic health (Coghlan, 2000). Those applying this approach seek to understand the processes than inhibit systemic health and help improve the organisation’s state of being so that the client becomes ‘actively involved in diagnosing their own situation and helping to formulate

interventions that will work in their culture' (Schein, 1993: p.703). This is in contrast to situations where action research is adopted on the grounds of it being a superior research technique rather than as a means to aid an organisation's well-being.

The clinical inquiry approach is seen as particularly appropriate for understanding and affecting organisational development in a rapidly changing and dynamic environment (Coghlan, 2003). As highlighted in Section 2, the Moldovan situation has required enterprises to rapidly adjust to radical shifts in their operating environment and the remainder of this paper looks at the adoption of a clinical inquiry methodology to understanding and affecting change in a case study enterprise.

Moldwine was founded in the early 1950s as a grape-collecting and primary processing centre.¹ Initially this unit processed grapes harvested from the vineyards belonging to three surrounding villages. In the 1980s, the processing capacity of Moldwine was increased to 10,000 tonnes per annum, making it a medium-sized winery by Moldovan standards, but only between 40 and 50 per cent of capacity was utilised. The enterprise employed 33 workers including 8 administrative staff.

During the Soviet era, Moldwine's production, similar to most other wineries in the republic, was sold in bulk. The origin of the wine was identified only as "Made in the Republic of Moldova" and bottling was undertaken elsewhere. The factory processed what grapes were produced locally, which were not always the most desired varieties.

In November 1999 the factory was privatised and a joint-stock company created. At the time of privatisation, a holding company (Vinhold) owned 33 per cent of the shares, the factory's employees 31 per cent, grape producing farms that supplied Moldwine 19.6 per cent and other agricultural companies were allocated the remainder of the shares. Vinhold is controlled by the pre-privatisation director of Moldwine. In the following three years Vinhold bought shares from employees and raw material suppliers to increase its stake by February 2003 to 52 per cent, giving it a controlling interest (Table 3). This pattern of 'wide insider privatisation' followed by a transfer of shares from suppliers and employees to a more concentrated core ownership is very typical for Moldova and other parts of the FSU (Orlova and Ronnås, 1999).

TABLE 3 ABOUT HERE

Members of the research team worked with Moldwine from 2000 to the end of 2003. The research team consisted of both UK and Moldovan researchers, who were given access to documentary evidence and the ability to interview a comprehensive range of managers and workers. The mixture of local and international researchers helped combine both local knowledge and wider perspectives. The first contact between Moldwine and local researchers was made in 1998 and the linkages between the UK and Moldovan research institutions date back to the early 1990s. As a result of earlier collaborative research on the Moldovan wine industry (Lamont, 1993) the difficulty of gaining access to enterprises and understanding organisational change using more conventional research approaches was acknowledged. It was realised that unless researchers could be of direct assistance to firms the level of interaction

¹ The fictitious name of Moldwine has been adopted to protect the commercial interests of the

between academics and enterprises would remain extremely limited and the nature of the insights generated superficial. This led to an agreement that the clinical inquiry approach could play a useful role in future investigations. In 1999 a successful bid for joint research on restructuring in the Moldovan and Ukrainian agri-food industry was submitted to EU INTAS. The project proposal envisaged a small number of case studies focusing on problems defined by enterprises with the research team playing an active part in trying to deal with those difficulties. Unlike in most critical inquiry studies, therefore, where researchers are paid for their contribution by the organisation itself (Schein, 1987), in this instance researchers were funded by an external agency (EU INTAS). Given the severe financial constraints on enterprises in Moldova this was appropriate and the source of funding was discussed at the outset.

The interactions between the research team and enterprise's employees focused on three problem areas defined by the company (procurement, marketing and technology). This follows Gummesson's (1991) advice of suppressing predefined conceptualisations and focussing on problems defined by the organisation itself. The researchers first sought to record employee's self-diagnosis and understanding of these problems and analyse existing interventions. This formed the basis for jointly devising a new strategy by senior managers and the research team. To implement the clinical inquiry approach, a PSEFI (Problem, Strategy, Evaluation, Future Issues) matrix was drawn up by the research team for use with Moldwine and this is discussed in the next section.

company. This was agreed at the outset of the research process.

It should be noted that the research with Moldwine differed from conventional clinical inquiry studies in one other regard. First in most clinical inquiry studies it is assumed that the relationship between researchers and the organisation's employees is paramount and that the former is the only source of external assistance. This is often unrealistic and as we document below in the Moldwine case study the enterprise also drew on support from a Non Governmental Organisation (NGO)²

4. Clinical Research in Practice: the PSEFI Matrix

After privatisation, the key strategic challenges were defined in the year 2000 by Moldwine as: (a) procurement; (b) technology and (c) marketing. In this manner both problems and the research objectives were identified by the organisation itself. In the first phase, an audit, or what Schein (1987) calls exploratory inquiry, of the three strategic challenges (procurement, technology and marketing) was undertaken by the research team in collaboration with Moldwine employees and stakeholders and this formed the basis of the PSEFI matrix (see Table 4). The implications of data collection were discussed and the audit was concluded for the most part by the end of the year 2000. Each column of the PSEFI matrix is considered in turn below.

TABLE 4 ABOUT HERE

Problems

In the immediate post-privatisation period (1999-2000) procurement problems jeopardised the entire viability of Moldwine. Prior to privatisation, grapes were only sourced from two neighbouring villages, which were frequently affected by drought, limiting both the quantity and range of grape varieties. As the supply base was

² NGO Agrex.

geographically small, the range of grape varieties procured was extremely limited, curtailing Moldwine's ability to react to changes in consumer tastes. Moldwine had no designated person who was responsible for procurement and they relied on the fact that the neighbouring agricultural farms, which up to 1999 were large former state and collective farms, were not equipped with the necessary equipment to process grapes, so they had to bring their production to Moldwine. No contracts were signed with raw material suppliers.

As a result of land reform, neighbouring collective farms were broken up with land and physical assets distributed to those who had previously worked on the farms. Vineyards were included in the land reform programme and many of the new owners knew little about cultivating vines, leading to a drop in the quality and quantity of available product; a phenomenon which has been noted in other transitional economies (Zaharieva *et al.* 2003). Moldwine as a result of land reform was thus faced with a far more fragmented and, overall, less professionally managed supply base. In conjunction with the Moldovan members of the research team, to document procurement problems, NGO Agrex, surveyed 46 of Moldwine's grape suppliers in the year 2000 (Table 5). Almost all suppliers of grapes to Moldwine suffered severe delays in payments (6-10 months) due to poor profitability and cash-flow, weakening their ability to purchase variable inputs. There was no formal system for accurately grading grapes and paying quality premiums with deals often struck only on the basis of visual inspection. As a result the majority felt uncertain as to the requirements for different grape varieties or how their payments would be calculated. Nearly 40 per cent lacked access to adequate transport, which negatively impacted on product

quality. These problems were not unique to Moldwine (Gorton *et al.* 2003) but the company realised that its procurement position was unsustainable.

TABLE 5 ABOUT HERE

As with procurement problems, an audit of *technological failings* was conducted. The inherited Soviet era plant was seen to have two main weaknesses. First, Moldwine had no bottling facilities of its own, which restricted the potential to improve value added and led to its dependence on bulk sales. Second, ‘classical’ production methods resulted in low extraction of tannins, which when combined with erratic grape harvesting and procurement methods led to very variable wine quality.

In the mid-1990s, Moldwine lacked a *marketing or promotional plan*. The company had no specialised marketing department or personnel and had no brand names or trademark of its own. Until 1999, as mentioned above, the wine produced at the factory was sold without indication. While its Cabernet, Merlot and Rară, were of good quality, they were bought in bulk by other wineries to augment the quality of their products. Moldwine gained little from this, failing to capture added value with a lack of balance between the prices it charged and the quality of the wines produced.

During this era, Moldwine did not sign long-term contracts with its customers and relationships were unstable. The firm did not participate in any exhibitions or wine tastings and had no international customers. Its product range was limited in that it concentrated almost universally on producing red wines despite the fact that the

southern zone of the Republic of Moldova with its sandy, fertile soils can foster high quality crops of white grapes (e.g. Aligote, Feteasca etc.).

Actions for Improvement

Following the process of self-diagnosis and collection of supporting evidence, discussions were held between Moldwine and the research team to formulate a strategy for the years 2001 to 2003 and identify ways in which the latter could assist in overcoming the procurement, marketing and technological problems identified. Four forms of assistance, to be provided by the research team, were agreed on:

- a) Arranging for an Australian viticultural expert to visit Moldwine to assess the capital stock and make recommendations for the purchase of new equipment in line with changing international markets;
- b) Jointly preparing a business plan, which was presented to Agroindbank to obtain credit to purchase the recommended new equipment and 25ha of land to plant varieties Cabernet Sauvignon and Merlot. Moldwine had little previous experience of preparing a business plan, especially cash flow forecasts, required to obtain commercial credit.
- c) Given the acknowledged weaknesses in Moldwine's marketing activities, senior managers were invited and attended short courses run by members of the research team on this topic at the Institute of Management and Rural Development.

d) The research team sought to obtain externally funded grants to help improve Moldwine's export strategy. In contrast to the first three objectives, this aim was not fulfilled as suitable opportunities were not identified.

By making these commitments to Moldwine, the research team took a more active role and in doing so gained better access to record the process of restructuring. The rest of this section outlines in turn the procurement, technological and marketing strategies adopted by Moldwine.

Three strategic objectives regarding procurement for the period 2001-2003 were identified: (a) to enlarge their procurement base; (b) to source a wider range of grape varieties and (c) to have more stable relationships with farms to improve the stability and quality of supply. Instead of just sourcing grapes from two neighbouring villages, Moldwine expanded their procurement activities to four other villages, giving it a larger supply base from which it could be more demanding. It also began to procure white grapes, to diversify its wine production and give it a cushion for when the yields of red varieties were low or of poor quality.

After 2001, Moldwine began to sign contracts with all raw material suppliers, 75 per cent of which are on an annual basis and the remainder for two years. The contracts specify the volume of grapes to be supplied, quality (sugar percentage and acidity) and varieties. This allows for better pre-planning of its production activities. Contracts however do not include guaranteed prices, which are set at the spot market rate at the time of collecting. Given the high level of inflation and instability of prices, futures markets and price insurance have not yet developed.

Small suppliers are paid by Moldwine at harvesting, with transportation undertaken using Moldwine's own vehicles to better preserve the quality of the picked grapes. For producers with more than 1 ha of land, pre-finance is included as part of the contracts. Such producers receive 30 per cent of the value of the contract in spring (in the form of 75 per cent cash and 25 per cent as agrichemicals to protect against pest infestation and vermin), 40 per cent is paid on delivery of the grapes and 30 per cent is paid before the end of the year. A new position of 'staff unit engineer' was created to supervise procurement. Moldwine also pays premiums according to sugar content and this has stimulated farmers to adjust their production techniques.³ Moldwine has also tried to improve the quality and quantity of yields by organising seminars for farmers to discuss how they can improve their practices.

In 2002, Moldwine began to rent vineyards to provide it with a more stable supply of the grapes it requires at a quality sufficient to support a premium brand. In 2002 it rented 4.7 ha of vineyards and based on positive results in its first year, it increased this to 20 ha in 2003. Using credit obtained from Agroindbank, in 2002 it also bought 25 ha of agricultural land on which to establish vines and it planned to purchase a further 25 ha in 2004.

Following the visit of the viticultural expert in 2001, Moldwine introduced new Australian-French technology to improve production. The particularity of this technology is that the grape clusters are fermented together with the must longer than with the classical method in order to extract greater tannins. After the crushing of the grapes, oak shavings are also added in order to increase the content of tannins, in

³ . In 1997-1999 the sugar content of grapes delivered to the factory was 18-19 per cent (red) and 17-19

addition to those extracted from clusters during a one-month period of fermentation. Secondly on the advice of the viticultural expert, Cabernet grapes are now harvested much later, when the sugar content reaches 25 to 27 per cent.

To deal with deficiencies in its marketing activities, Moldwine created a new position of sales and marketing director to co-ordinate the linkage between production and marketing activities. It introduced both a trademark to brand its wine and bottling facilities. It has attempted to differentiate its output into a premium and ‘everyday’ range. It also now attends and competes at international wine fairs and exhibitions.

Evaluation of Outcomes

The measures adopted by Moldwine have reversed the drastic decline in grapes procured. The quantity of grapes procured rose from 1,200 tonnes in 1999, to 1,400 tonnes and 1,600 thousand tonnes in 2000 and 2001 respectively. In the drought conditions of the 2002, when the average harvest in Moldwine’s region was a mere 1.3 tonnes per ha compared against a typical harvest during the 1990s of 3 tonnes / ha and up to 5 tonnes / ha in good years, the company still managed to process 1,500 tonnes of grapes. The value of wines sold in real terms rose from €156,950 in 1999 to €225,309 in 2002.

To document the impact of Moldwine’s innovations in procurement, a survey of 39 of its most important suppliers was conducted to assess how their perceptions of the company had changed between 2000 and 2003 (Table 6). The data in Table 6 can be compared against the baseline perceptions recorded in Table 5. The vast majority

per cent (white), while in 2002 the respective figures were 20-22 per cent and 19-20 per cent.

of suppliers believed that their relationship with Moldwine had improved and that the new system of contracting provided clear requirements regarding product quality. Few farmers saw low prices or delayed payments as a problem although the pre-financing of agrichemicals remains an issue as this is the heaviest strain on cash-flow.

TABLE 6 ABOUT HERE

While procurement relationships have improved contract breeches are still common. A major problem surrounds the pre-financing of farmers. Where farmers are provided with credit and physical inputs in the spring, it is difficult for Moldwine to monitor whether these inputs are actually used on vineyards and there is no guarantee farmers will sell to Moldwine at harvesting even if this is specified in the contract. While Moldwine could take legal action in the case of a breech of contract, this is expensive and time-consuming with any likely financial compensation being negligible. This has motivated Moldwine to seek more secure supplies, by vertically integrating via renting vineyards and buying agricultural land for conversion to grape production. At this stage it is too early to assess the full outcomes of this strategy.

The change in technologies has allowed Moldwine to diversify, producing higher quality, bottled white (Aligote, Muscat) and dessert wines (Cagor, Mărgăritar) in addition to its traditional range of reds. Currently the factory uses three technologies: classical (for the production of table wines), dessert (for producing Cagor and Mărgăritar) and the Australian-French technology for fermenting Cabernet grapes. Output from the latter is partly exported to France for amelioration of some

Bordeaux wines. The utilisation of these technologies permitted the diversification of production and the penetration of new markets.

As a result of improved marketing practices, the share of output accounted for by higher quality (superior) wines increased from approximately 20 per cent in 1999 to 43.7 per cent in 2001 and around 45 per cent in 2003. The company produces four superior wines using Cabernet, Saperavi, Merlot and Pinot grapes. While superior wines are more expensive, it is a niche that Moldwine has been able to access in Russia and Ukraine. The best quality red wine produced in Moldwine's region is considered to be Cabernet, of which the company produces about 6,000 decilitres (about 30 per cent of total volume). From a position of having no international contacts, the majority of Moldwine's output is now directly exported (Figure 1). By 2002, 35 per cent of its output by value was exported to Russia and between 20 and 25 per cent was sold to Ukraine. Its third most important market is Belarus (15-18 per cent). Domestic sales account for around 10 ten per cent of gross revenue and bulk sales to France are comparatively small (2 per cent). While Moldwine has been successful in boosting exports, it is still overwhelmingly linked to the FSU market. Its penetration of Western European markets has been limited to low value-added bulk sales to France. In this regard, Moldwine is typical of the industry as a whole: trade reorientation remains extremely modest.

FIGURE 1 ABOUT HERE

Moldwine estimates that it accounts for approximately 10 per cent of the domestic retail market for bottled wines.⁴ To review its major outlets in the domestic market, interviews were conducted by the research team with the buyers of 11 main stores in Chişinău, the capital of Moldova, that specialise in alcoholic beverages. Out of the 11 stores, 8 reported that they stocked Moldwine's products because of their improved quality and recognisable brand names. A further 2 stores were aware of Moldwine but did not stock their products regularly because of the relatively small level of Moldwine's output. Only one specialised store reported that they had never stocked Moldwine goods, due to that fact that it was recently opened and had not yet finalised its product range.

5. Reflections and Conclusions

The clinical inquiry approach seeks to understand organizational change 'together with those who experience these issues directly' (Coghlan, 2003: 453). It is argued that this approach is particularly appropriate for understanding organisational change in transitional economies and this is illustrated by the Moldwine case.

Clinical inquiry has advantages as both a method for research and business support. Regarding research, knowledge of the process of firm-level adjustment in the FSU has been widely acknowledged as inadequate (Meyer, 2001). One of the reasons for this has been the lack of success of traditional research methods used in Western Europe when they have been applied to the FSU. For example postal and telephone based surveys, the most common method of primary research in organisational studies (Scudder and Hill, 1998), have elicited extremely low response rates. For example,

⁴ The retail market is much smaller than the total market as a large proportion of wine, estimated to be in the region of 60 per cent of production, is non-marketed and is produced and consumed by individual households.

Marinov *et al.* (1993) achieved useable response rates of just 4.3 and 4.5 per cent from two waves of a postal survey of Bulgarian enterprises. The degree of suspicion of research activities, in general, is significantly higher than in Western Europe and conducting meaningful empirical research relies to a greater extent on personal contacts and the careful building of academic – enterprise links. In the Moldovan case, the combination of domestic academics, with well-known local contacts and Western European researchers who could give a broader perspective on international markets, was beneficial. The more goal oriented focus of the clinical inquiry approach, assisting firm development over a longer timeframe, when administered with care, can yield greater insights on enterprise restructuring.

However, the literature on applying the clinical inquiry approach has been derived overwhelmingly from experiences in Western Europe and North America (Schein, 1987; McDonagh and Coghlan, 2001). While the clinical inquiry methodology is advocated for transitional economies, some of the assumptions, which are present in the clinical inquiry literature, are inappropriate for other business environments. For example, in the FSU and developing countries, external funding particularly for international collaboration is likely to be essential. Similarly there is a danger of self-diagnosis becoming an insular process and in the Moldwine case the collection of additional data from the company's suppliers and buyers, both prior to and after restructuring was beneficial. The collection of additional information meant going outside of the research team – enterprise relationship, which can be over-emphasised in clinical inquiry studies to the detriment of recognising the importance of other linkages.

While noting these differences, the clinical inquiry approach also has advantages as a mechanism for business support and intervention in transitional economies. Initiatives for management education in the early years of transition were dominated by the import of Western models. As Meyer and Lieb-Dóczy (2003) note, few efforts were made to develop new solutions adapted to the transitional context, rather generic programmes introducing the principles of the 'market economy' or establishing Western style MBAs were the norm. This meant that the services offered to firms from such programmes were often inappropriate for meeting the challenges detailed in Section 2 of this paper and were greeted with a wide degree of cynicism by enterprise managers in the FSU. A more fruitful approach to business support can be achieved by beginning with the self-diagnoses of problems as framed by enterprise managers, followed by an assessment of how necessary adjustments can be supported. Moreover, importing generic Western models not only ignores the transitional context but it also downplays the experience and abilities of FSU managers and their capacity to adapt (Kogut, 1996). As seen in the Moldwine case, despite a very unpromising operating environment the company were able to improve their procurement and marketing activities and rescue the company. In guiding self-diagnosis and monitoring intervention the PSEFI matrix is a useful tool although it is difficult to precisely quantify the impact of clinical inquiry or assess how the company would have developed without involvement in the project. This is a common problem for research based on clinical inquiry (Schein, 1993). However it is possible to say that if the enterprise believed the relationship with the research team to be futile or counterproductive the linkages between the two would not have persisted. Moreover the evaluation of suppliers' attitudes, sales and output shows that the jointly derived strategy has improved the company's position compared to the crisis it faced

in 1999. While Moldwine has not resolved all the business problems identified the case does illustrate how the clinical inquiry approach can be a meaningful avenue for understanding and guiding enterprise level adjustment in transitional economies.

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TABLES AND FIGURES

Table 1: Moldovan grape and wine production (1993-2003)

	1993	1995	1997	1999	2001	2003 ^e
Area planted with grapes (ha)	172,500	n.a.	171,123	147,415	149,686	148,000
Grape production (metric tonnes)	927,820	875,497	309,770	464,857	505,012	600,000
Production of wine (metric tonnes)	548,925	296,400	35,425	133,185	140,000	200,000

^e estimated

Source: unpublished data from the Ministry of Agriculture and Food Industry (2003)

Table 2: Moldovan Wine Exports by Country, percentage of volume

Country	1996	1997	1998	1999	2000	2001
Russia	91	96	94	88	77	82
Other CIS countries	5	3	5	8	14	15
Other countries	4	1	1	4	9	3

Source: unpublished data from the Ministry of Agriculture and Food Industry (2003)

Table 3: Structure of the statutory capital in Moldwine

Shareholders	November 1999	November 2002
Vinhold	33.0	40.0
Company's employees	31.0	29.0
Agricultural company (name deleted)	12.0	12.0
Raw material suppliers	19.3	10.9
Agricultural company (name deleted)	4.7	4.1
Moldwine	0.0	4.0
Total	100.0	100.0

Source: unpublished company information

Table 4: PSEFI Matrix for Moldwine

	Problems	Strategy	Evaluation	Future Issues
Procurement	Limited local supply, ineffective supervision and lack of contracts. Late payment weakened supply base.	Enlarge supply base and sign contracts with raw material suppliers. Pre-production finance to suppliers to improve quality of production. Designated staff to handle procurement.	Decline in production halted and quantity of grapes procured increased. Source both red and white grapes.	Refining contracts to avoid breeches / failure.
Technology	Lack of bottling facilities. Classical process poor extraction of tannins.	Introduce new Australian-French technology to improve tannin extraction. Used to open up export markets.	Greater differentiation of products allow for better market segmentation.	Meeting international standards.
Marketing	No marketing plan or designated marketing staff. Lack of trade name meant low added value. Compounded by lack of bottling facilities. Overall lack of market orientation.	Designated marketing staff. Produce wines more in line with consumer demand. Develop trade mark and increase added value.	High quality wine production rose from 25 to 44% of output.	Limited local market for higher quality wines. Unstable export situation.

Table 5: Procurement Problems as Reported by Moldwine's Suppliers (2000)

Problem	Number reporting	% of total reporting problem
Lack of contracts	45	98
Late payment for grapes	44	96
Low prices	36	78
Uncertain requirements regarding grape varieties & payments	24	52
Underestimation of grape quality by Moldwine	23	50
lack of finance for chemicals and additives	21	46
Lack of transport for delivering to Moldwine	18	39
Lack of other resources	11	24
Lack of alternative buyers other than Moldwine	4	9

Source: project data

Table 6: Survey of attitudes of key suppliers to Moldwine (2003)

	Number agreeing with statement	% agreeing with statement
<i>Agree with the following statements:</i>		
Contracts include clear requirements for production quality	36	92
Relationships with Moldwine have improved	33	85
Suffered from lack of money to purchase chemicals and additives	20	51
Used Moldwine factory transport for collecting grapes	15	38
Signed contracts for 2 or more years	13	33
Sold grapes to Moldwine but also to other customers	11	28
Factory not correctly value quality of grapes	4	10
Receive low prices for grapes	3	8
Did not fulfil contracts because of small harvest	2	5
Delayed payment for collected grapes	1	3

Source: project data

Figure 1: Distribution of output by market, based on value of sales, % of total

